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ATTORNEYS AT LAW

Erin Daniels
(612) 371-3909

December 12, 2007

South Dakota Secretary of State
State Capitol, Suite 204
Business Division-Bond Information Statement Filing
500 East Capitol
Pierre, SD 57501-5070

Re: $25,570,000 City of Sioux Falls, South Dakota Sales Tax Revenue Bonds, Series 2007B

Dear Filing Officer:

Enclosed for filing is a Bond Information Statement for the above-referenced transaction, together with a check for the $1.00 filing fee. A copy of the Official Statement for the above-referenced offering is also enclosed for your reference.

Please return acknowledgment of filing at your earliest opportunity. If you have any questions, please call me at (612) 371-3909.

Sincerely,

Erin Daniels

Erin Daniels
Legal Assistant

Enclosures

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DEC 14 2007
S.D. SEC. OF STATE
173902

BOND INFORMATION STATEMENT
State of South Dakota
SDCL 6-8B-19

Return:

Secretary of State
State Capitol
500 E. Capitol
Pierre, SD 57501-5077

FILING FEE: $1.00

TELEPHONE: (605) 773-3537

Every public body, authority, or agency issuing any general obligation, revenue, improvements, industrial revenue, special assessment, or other bonds of any type shall file with the Secretary of State a bond information statement concerning each issue of bonds.

1. Name of issuer: City of Sioux Falls, South Dakota

2. Designation of issue: Sales Tax Revenue Bonds, Series 2007B

3. Date of issue: December 12, 2007

4. Purpose of issue: See attachment.

5. Type of bond: Sales Tax Revenue

6. Principal amount and denomination of bond: $25,570,000, $5,000 denominations

7. Paying dates of principal and interest: May 15 and November 15 commencing May 15, 2008

8. Amortization schedule: See Official Statement.

9. Interest rate or rates, including total aggregate interest cost: See Official Statement.

This is to certify that the above information pertaining to the bond is true and correct on this 12th day of December, 2007.

Eugene Bruenhoust
City Finance Director

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ATTACHMENT
TO
BOND INFORMATION STATEMENT

(I) THE EXPANSION, RENOVATION, AND EQUIPPING OF THE EXISTING LIBRARY AND PARKING LOTS AT 201 N. MAIN AVE., 301 N. MAIN AVE., AND SEVENTH ST. RIGHT-OF-WAY BETWEEN N. DAKOTA AVE. AND N. MAIN AVE., SIOUX FALLS, SOUTH DAKOTA; (II) THE ACQUISITION, CONSTRUCTION, AND EQUIPPING OF A SPORTS FACILITY ON APPROXIMATELY 111 ACRES KNOWN AS HARMODON PARK LOCATED AT THE SOUTHWEST CORNER OF THE INTERSECTION OF HIGHWAY 11 AND 41ST ST. IN SIOUX FALLS, SOUTH DAKOTA; (III) THE ACQUISITION, CONSTRUCTION, AND EQUIPPING OF AN AQUATIC FACILITY, WHICH SHALL INCLUDE A SWIMMING POOL, PLAY AREA SPACE, AND PUBLIC GATHERING SPACE, ON APPROXIMATELY 34 ACRES AT THE SOUTHWEST CORNER OF THE INTERSECTION OF TENTH ST. AND CLIFF AVE. COMMONLY KNOWN AS NELSON PARK; AND (IV) SALES TAX FUNDED PROJECTS FOR PARK-RELATED PROJECTS IN THE CAPITAL IMPROVEMENTS PLAN ADOPTED BY THE CITY COUNCIL ON AUGUST 7, 2006.

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NEW ISSUE / BOOK ENTRY ONLY **Rating: Moody's "Aaa"**

In the opinion of Lindquist & Vennum P.L.L.P., Bond Counsel, according to federal laws, regulations, rulings and decisions in effect on the date of issuance of the Series 2007B Bonds, the interest to be paid on the Series 2007B Bonds is not includable in gross income for federal income tax purposes except under certain conditions. Interest paid on Series 2007B Bonds is not an item of tax preference includable for purposes of computing the alternative minimum tax applicable to all taxpayers, including individuals, under the Internal Revenue Code of 1986 (the "Code"), however, interest paid on the Series 2007B Bonds is includable for purposes of computing certain other taxes imposed on corporations and individuals. Interest on the Series 2007B Bonds is includable in gross income for South Dakota income tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. See "TAX MATTERS", herein.

$25,570,000
CITY OF SIOUX FALLS, SOUTH DAKOTA
SALES TAX REVENUE BONDS
SERIES 2007B

Dated Date: Date of Delivery **Due: November 15, as shown on the inside front cover**

The Sales Tax Revenue Bonds, Series 2007B (the "Series 2007B Bonds") are being issued by the City of Sioux Falls, a political subdivision of the State of South Dakota (the "City"), pursuant to an Indenture of Trust, dated as of August 15, 1988, as amended and supplemented, including a Twelfth Supplemental Indenture, dated as of December 1, 2007 (as so amended and supplemented, the "Indenture"), between the City and The First National Bank in Sioux Falls, Sioux Falls, South Dakota (the "Trustee"), to finance (i) the expansion, renovation, and equipping of the existing library and parking lots at 201 N. Main Ave., 301 N. Main Ave., and Seventh St. right-of-way between N. Dakota Ave. and N. Main Ave., Sioux Falls, South Dakota; the acquisition, construction, and equipping of a sports facility on approximately 111 acres known as Harmodon Park located at the southwest corner of the intersection of Highway 11 and 41st St. in Sioux Falls, South Dakota; the acquisition, construction, and equipping of an aquatic facility, which shall include a swimming pool, play area space, and public gathering space, on approximately 34 acres at the southwest corner of the intersection of Tenth St. and Cliff Ave. commonly known as Nelson Park; and sales tax funded projects for park-related projects in the Capital Improvements Plan adopted by the City Council on August 7, 2006 (the "Project"), (ii) to fund a deposit to the Series 2007B Reserve Fund and (iii) to pay the costs of issuance of the Series 2007B Bonds.

The Series 2007B Bonds are issuable in fully registered form and will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2007B Bonds. Purchases of beneficial ownership interests in the Series 2007B Bonds will be made in book-entry form only, in principal amounts of $5,000 or whole multiples thereof. Beneficial owners of the Series 2007B Bonds will not receive bond certificates evidencing their ownership interests in the Series 2007B Bonds. So long as DTC or its nominee is the registered owner of the Series 2007B Bonds, payments of principal, redemption price and interest will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to beneficial owners is the responsibility of the DTC participants.

Principal of the Series 2007B Bonds will be payable annually on November 15, as shown on the inside front cover of this Official Statement. Interest on the Series 2007B Bonds is payable on each May 15 and November 15, commencing May 15, 2008. The Trustee will act as Registrar, Transfer Agent and Paying Agent.

Payment of principal of and interest on the Series 2007B Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Series 2007B Bonds by:

mbia
WISDOM IN ACTION℠

The Series 2007B Bonds are subject to redemption prior to maturity. See "The Series 2007B Bonds – Optional Redemption."

THE SERIES 2007B BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE COLLECTIONS OF CERTAIN SALES TAXES DESCRIBED HEREIN, WHICH HAVE BEEN IRREVOCABLY PLEDGED TO THE PAYMENT THEREOF, AND FROM CERTAIN OTHER MONEYS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. THE SERIES 2007B BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, THE STATE OF SOUTH DAKOTA OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF SOUTH DAKOTA.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

The date of this Official Statement is December 4, 2007

MATURITY SCHEDULE

Series 2007B Bonds

MATURITY	AMOUNT	INTEREST RATE	YIELD	CUSIP
2009	$ 945,000.00	4.00%	3.28%	829594 FM7
2010	980,000.00	4.00	3.29	829594 FN5
2011	1,010,000.00	4.00	3.30	829594 FP0
2012	1,045,000.00	4.00	3.35	829594 FQ8
2013	1,085,000.00	4.00	3.41	829594 FR6
2014	1,125,000.00	4.00	3.48	829594 FS4
2015	1,165,000.00	4.00	3.57	829594 FT2
2016	1,205,000.00	4.00	3.66	829594 FU9
2017	1,255,000.00	4.00	3.77	829594 FV7
2018	1,300,000.00	4.50	3.90	829594 FW5
2019	1,350,000.00	4.00	4.06	829594 FX3
2020	1,405,000.00	4.25	4.18	829594 FY1
2021	1,465,000.00	4.25	4.28	829594 FZ8
2022	1,525,000.00	4.25	4.34	829594 GA2
2023	1,590,000.00	5.00	4.23	829594 GB0
2024	1,665,000.00	4.75	4.36	829594 GC8
2025	1,740,000.00	4.75	4.40	829594 GD6
2026	1,815,000.00	4.75	4.44	829594 GE4
2027	1,900,000.00	4.375	4.53	829594 GF1

OFFICIAL STATEMENT

FOR PURPOSES OF COMPLIANCE WITH RULE 15C2-12 OF THE SECURITIES AND EXCHANGE COMMISSION, THIS DOCUMENT AND ANY ADDENDUM OR ADDENDA ATTACHED HERETO PRIOR TO THE SALE OF THE SERIES 2007B BONDS TO A SUCCESSFUL BIDDER, SHALL CONSTITUTE THE "NEAR FINAL OFFICIAL STATEMENT."

THE "NEAR FINAL OFFICIAL STATEMENT" WHEN SUPPLEMENTED BY AN ADDENDUM OR ADDENDA SPECIFYING THE MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES OF THE SERIES 2007B BONDS, AND ANY OTHER INFORMATION REQUIRED BY LAW, SHALL CONSTITUTE A "FINAL OFFICIAL STATEMENT" OF THE CITY AS DEFINED IN SEC RULE 15C2-12.

UNDERWRITERS MAY OBTAIN A COPY OF THE NEAR FINAL OFFICIAL STATEMENT BY REQUEST TO THE CITY'S FINANCIAL CONSULTANT PRIOR TO THE BID OPENING. THE SUCCESSFUL BIDDER (SYNDICATE MANAGER) WILL BE PROVIDED WITH NOT LESS THAN 50 COPIES OF THE FINAL OFFICIAL STATEMENT WITHIN SEVEN BUSINESS DAYS OF THE BID ACCEPTANCE. (ADDITIONAL COPIES OF THE FINAL OFFICIAL STATEMENT WILL BE AVAILABLE AT A COST OF $5.00 PER COPY.) AN ELECTRONIC VERSION IS AVAILABLE AT WWW.I-DEALPROSPECTUS.COM.

THE CITY SHALL DESIGNATE THE SENIOR MANAGING UNDERWRITER OF THE SYNDICATE TO WHICH THE SERIES 2007B BONDS ARE AWARDED AS ITS AGENT FOR PURPOSES OF DISTRIBUTING COPIES OF THE FINAL OFFICIAL STATEMENT TO EACH PARTICIPATING UNDERWRITER. ANY UNDERWRITER EXECUTING THE DELIVERING AN OFFICIAL BID FORM WITH RESPECT TO THE SERIES 2007B BONDS AGREES THEREBY THAT IF ITS BID IS ACCEPTED BY THE CITY (I) IT SHALL ACCEPT SUCH DESIGNATION AND (II) IT SHALL ENTER INTO A CONTRACTUAL RELATIONSHIP WITH ALL PARTICIPATING UNDERWRITERS OF THE SERIES 2007B BONDS FOR PURPOSES OF ASSURING THE RECEIPT BY EACH SUCH PARTICIPATING UNDERWRITER OF THE FINAL OFFICIAL STATEMENT.

THE SERIES 2007B BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2007B BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH THE SERIES 2007B BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2007B BONDS AS AN INVESTMENT OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ANY CUSIP NUMBERS FOR THE SERIES 2007B BONDS INCLUDED IN THIS OFFICIAL STATEMENT ARE PROVIDED FOR THE CONVENIENCE OF THE OWNERS AND PROSPECTIVE INVESTORS. THE CUSIP NUMBERS FOR THE SERIES 2007B BONDS HAVE BEEN ASSIGNED BY AN ORGANIZATION UNAFFILIATED WITH THE CITY. THE CITY IS NOT RESPONSIBLE FOR THE SELECTION OF THE CUSIP NUMBERS AND MAKES NO REPRESENTATION AS TO THE ACCURACY THEREOF AS PRINTED ON THE SERIES 2007B BONDS OR AS SET FORTH IN THIS OFFICIAL STATEMENT. NO ASSURANCE CAN BE GIVEN THAT THE CUSIP NUMBERS FOR THE SERIES 2007B BONDS WILL REMAIN THE SAME AFTER THE DATE OF ISSUANCE AND DELIVERY OF THE SERIES 2007B BONDS.

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DOUGHERTY & COMPANY LLC

FINANCIAL ADVISOR TO THE CITY

SUMMARY

This is not a summary of the entire Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2007B Bonds to potential investors is made only by means of the entire Official Statement and all such documents.

Issuer	City of Sioux Falls, South Dakota
Issues	$25,570,000 Sales Tax Revenue Bonds Series 2007B
Dated Date	Date of Delivery
Principal Due	Series 2007B Bonds: November 15, 2009 through November 15, 2027
Interest Payment Date	Commencing May 15, 2008 and on each May 15 and November 15 thereafter.
Redemption Provision	At the option of the City, the Series 2007B Bonds maturing on November 15, 2018 and thereafter shall be subject to redemption in whole or in part by lot on November 15, 2017 or on any date thereafter at par plus accrued interest to the date of redemption.
Purpose	The proceeds of the Series 2007B Bonds will be to finance (i) the expansion, renovation, and equipping of the existing library and parking lots at 201 N. Main Ave., 301 N. Main Ave., and Seventh St. right-of-way between N. Dakota Ave. and N. Main Ave., Sioux Falls, South Dakota; the acquisition, construction, and equipping of a sports facility on approximately 111 acres known as Harmodon Park located at the southwest corner of the intersection of Highway 11 and 41st St. in Sioux Falls, South Dakota; the acquisition, construction, and equipping of an aquatic facility, which shall include a swimming pool, play area space, and public gathering space, on approximately 34 acres at the southwest corner of the intersection of Tenth St. and Cliff Ave. commonly known as Nelson Park; and sales tax funded projects for park-related projects in the Capital Improvements Plan adopted by the City Council on August 7, 2006 (the "Project"), (ii) to fund a deposit to the Series 2007B Debt Service Reserve Fund and (iii) to pay the costs of issuance of the Series 2007B Bonds.
Security	The City pledges the Second Penny Tax. Pursuant to the Twelfth Supplemental Indenture, the City will establish and is required to maintain a Series 2007B Debt Service Reserve Fund for the benefit of the Series 2007B Bonds, funded in an amount equal to the Series 2007B Debt Service Reserve Requirement. (See "SECURITY FOR THE SERIES 2007B BONDS").
Authority	The Series 2007B Bonds are being issued pursuant to South Dakota Codified Laws, Chapters 10-52 and 6-8B, as amended, and an initial ordinance adopted by the City Council on March 5, 2007.
Tax Exemption	Interest on the Series 2007B Bonds is excludable from gross income for federal income tax purposes. (See "LEGAL MATTERS" herein.)
Trustee	The First National Bank in Sioux Falls, Sioux Falls, South Dakota
Record Date	The first day of the month including such payment date.
Delivery Date and Place	On or about December 12, 2007 through the facilities of DTC in New York, New York
Denominations	The Series 2007B Bonds will be issued in denominations of $5,000 each and integral multiples thereof.
Continuing Disclosure	The City will covenant to provide annual reports and timely notice of certain events all as set forth in the Continuing Disclosure Agreement. (See Appendix E)

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OFFICIAL STATEMENT

$25,570,000

CITY OF SIOUX FALLS, SOUTH DAKOTA
SALES TAX REVENUE BONDS, SERIES 2007B

INTRODUCTORY STATEMENT

The following is a brief introduction as to matters discussed elsewhere in this Official Statement and is qualified in its entirety by such further discussion and the text of the actual documents described or referenced.

General

This Official Statement provides information regarding the Sales Tax Revenue Bonds, the Series 2007B Bonds (the "Series 2007B Bonds") (the Series 2007B Bonds, together with the hereinafter described SRF Loans, the Series 2001A Bonds, the Series 2001B Bonds, the Series 2004 Bonds, the Series 2006A Bonds, the Series 2006B Bonds, the Series 2007A Bonds and any Additional Bonds which may hereafter be issued, as described under "PARITY ISSUES," are collectively referred to herein as the "Bonds") to be issued in the aggregate principal amount of $25,570,000 by the City of Sioux Falls, a political subdivision of the State of South Dakota (the "City"). See "THE CITY." The Series 2007B Bonds will be issued pursuant to an Indenture of Trust, dated as of August 15, 1988, as amended and supplemented by a First Supplemental Indenture, dated as of September 1, 1991, a Second Supplemental Indenture, dated as of December 1, 1991, a Third Supplemental Indenture, dated as of December 15, 1993, a Fourth Supplemental Indenture, dated as of November 1, 1996, a Fifth Supplemental Indenture, dated as of December 15, 1996, a Sixth Supplemental Indenture, dated as of September 1, 1999, a Seventh Supplemental Indenture, dated as of March 1, 2001, an Eighth Supplemental Indenture, dated as of April 15, 2004, a Ninth Supplemental Indenture, dated as of March 2, 2006, a Tenth Supplemental Indenture, dated as of April 10, 2006, an Eleventh Supplemental Indenture, dated as of May 1, 2007 and a Twelfth Supplemental Indenture, dated as of December 1, 2007 as amended and supplemented (as so amended and supplemented, the "Indenture"), between the City and The First National Bank in Sioux Falls, in Sioux Falls, South Dakota (together with its successors and assigns the "Trustee"), for the purpose of financing (i) the expansion, renovation, and equipping of the existing library and parking lots at 201 N. Main Ave., 301 N. Main Ave., and Seventh St. right-of-way between N. Dakota Ave. and N. Main Ave., Sioux Falls, South Dakota; the acquisition, construction, and equipping of a sports facility on approximately 111 acres known as Harmodon Park located at the southwest corner of the intersection of Highway 11 and 41st St. in Sioux Falls, South Dakota; the acquisition, construction, and equipping of an aquatic facility, which shall include a swimming pool, play area space, and public gathering space, on approximately 34 acres at the southwest corner of the intersection of Tenth St. and Cliff Ave. commonly known as Nelson Park; and sales tax funded projects for park-related projects in the Capital Improvements Plan adopted by the City Council on August 7, 2006 (the "Project"), (ii) to fund a deposit to the Series 2007B Debt Service Reserve Fund and (iii) to pay the costs of issuance of the Series 2007B Bonds.

The Series 2007B Bonds are special limited obligations of the City payable solely from a pledge of the sales tax revenues, as described herein. Neither the faith and credit nor the general taxing power of the State of South Dakota, any county, municipality, political subdivision or governmental unit or agency thereof or of the City is or shall be pledged to the payment of or interest on the Series 2007B Bonds.

Sales Taxes

The City levies (i) a non ad valorem tax as defined in Sections 39-16 and 39-47 of the Revised Ordinances of the City, and Ordinance Nos. 70-03, 14-04 and 26-06 codified as Sections 39-16.1 and 39-47.1 of the Revised Ordinances of the City (the "Second Penny Sales Tax Ordinance") a sales tax authorized by South Dakota Codified Laws Chapter 10-52 at the rate of 0.92% (the "Second Penny Tax") and (ii) an additional municipal retail occupational sales and service tax of one percent (1%) on the gross receipts of certain entertainment-related business activities (the "Third Penny Tax"). The Second Penny Tax constitutes the Pledged Sales Taxes. See "DEBT SERVICE COVERAGE" herein regarding the pledges of the Second Penny Tax.

Under the Indenture, the City will sign and pledge to the Trustee, for the benefit of Bondholders, so much of the collections of the Pledged Sales Taxes in each year as are necessary for the payment of the principal of, premium, if any, and interest on the Bonds. The City has covenanted to continue to impose and collect the Pledged Sales Taxes so long as any Bonds are outstanding. The City has also covenanted in the Indenture that if at any time the proceeds of Pledged Sales Taxes are not sufficient to pay when due all debt service on the Bonds the City shall nevertheless provide moneys to cure any such deficiency, but only to the extent that legally available funds are appropriated for such purpose by the City's governing body. The governing body of the City is not obligated to appropriate funds to cure a deficiency.

Miscellaneous

Summaries and descriptions of the City, the 2007B Project, the Series 2007B Bonds, the Indenture and certain other documents are included in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute or instrument. Descriptions of the Indenture and the Series 2007B Bonds are also qualified by reference to bankruptcy laws affecting the remedies for the enforcement of the rights and security provided therein and the effect of the exercise of the police power by any entity with jurisdiction. The City has agreed to provide certain continuing disclosure information after the issuance of the Series 2007B Bonds as more fully described under "CONTINUING INFORMATION" below.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Series 2007B Bonds. The statements of the City herein are not to be construed as statements by any official, officer or employee of the City.

THE CITY

General

Sioux Falls is located in southeastern South Dakota and is the county seat of Minnehaha County. The City is the largest in South Dakota with an estimated MSA population of 222,570, and serves as a retail trade center for an estimated 750,000 people in southwestern Minnesota, northwestern Iowa and eastern South Dakota. Approximately 67 square miles are encompassed within the City.

For general information concerning the City, its general finances, sources of revenue, outstanding obligations, taxes and property values, see "APPENDIX A" attached.

THE 2007B PROJECT

The proceeds of the Series 2007B Bonds will be used to finance (i) the expansion, renovation, and equipping of the existing library and parking lots at 201 N. Main Ave., 301 N. Main Ave., and Seventh St. right-of-way between N. Dakota Ave. and N. Main Ave., Sioux Falls, South Dakota; the acquisition, construction, and equipping of a sports facility on approximately 111 acres known as Harmodon Park located at the southwest corner of the intersection of Highway 11 and 41st St. in Sioux Falls, South Dakota; the acquisition, construction, and equipping of an aquatic facility, which shall include a swimming pool, play area space, and public gathering space, on approximately 34 acres at the southwest corner of the intersection of Tenth St. and Cliff Ave. commonly known as Nelson Park; and sales tax funded projects for park-related projects in the Capital Improvements Plan adopted by the City Council on August 7, 2006 (the "Project"), (ii) to fund a deposit to the Series 2007B Debt Service Reserve Fund and (iii) to pay the costs of issuance of the Series 2007B Bonds.

SOURCES AND USES OF FUNDS

The estimated sources for and application of funds in connection with the 2007B Project are as follows:

Sources

Series 2007B Bonds	$	25,570,000.00
Plus: Net Original Issue Premium		495,911.85
Total Sources	$	26,065,911.85

Uses

2007B Project Costs*	$	23,672,771.86
2007B Debt Service Reserve Fund		2,047,462.50
Bond Insurance Premium, Costs of Issuance and Underwriter's Discount		345,677.49
Total Uses	$	26,065,911.85

*Includes capitalized interest estimated to be $1,019,777.81

THE SERIES 2007B BONDS

Interest Rates; Maturity Dates and Payment

The Series 2007B Bonds are being issued in the aggregate principal amount of $25,570,000 and will mature as set forth on the inside front cover hereof. All Series 2007B Bonds will bear interest at the rates set forth on the inside cover hereof, payable semiannually on May 15 and November 15 (each an "Interest Payment Date") of each year commencing May 15, 2008. Interest will be calculated on the basis of a 360-day year with twelve months of thirty days.

The Series 2007B Bonds will be issued as fully registered bonds without interest coupons in the denomination of $5,000 or whole multiples thereof. The Series 2007B Bonds will be payable as to principal, whether upon maturity or redemption, at the principal office of the Trustee. If any payment of interest or principal is due on a day that is not a business day, payment is required to be made on the next succeeding business day with the same effect as if paid when otherwise due. Interest shall be payable by check or draft mailed on the Interest Payment Date to the persons who were registered owners thereof as of the first day of the month in which the Interest Payment Date occurs.

Optional Redemption

The Series 2007B Bonds maturing on and after November 15, 2018 are subject to redemption, in whole or in part, at the option of the City on November 15, 2017, and on any date thereafter, and if in whole on any date and, if in part, on any interest payment date, in such order of stated maturity as directed by the City and selected by random means within a stated maturity, in integral multiples of $5,000, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued to the redemption date, without premium.

Exchange and Transfer

If the book-entry only system hereinafter described is not in effect, the Bonds shall be transferable and exchangeable for other denominations only upon the books of the Trustee and only upon presentation and surrender of such Bonds, together with an executed assignment or other acceptable transfer instrument, subject to the payment of any cost, tax or charge that may be imposed in connection therewith. Bonds called for redemption are not required to be transferred or exchanged.

Replacement

If any Bond is mutilated, lost, stolen or destroyed, the City shall execute and the Trustee shall authenticate and deliver, subject to the provisions of the Indenture, a new Bond of like date and denomination. In the case of a lost, stolen or destroyed Bond, the City and the Trustee may require satisfactory indemnification. In the case of a mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee. For every such exchange of Bonds, the Trustee may charge the owner of such Bond the Trustee's reasonable fees and expenses with respect to the exchange.

Notice of Redemption

With respect to any redemption, the Trustee is required to cause notice of the redemption to be mailed to the registered owner of each Bond to be redeemed (whether in whole or in part), by first class mail, not less than 30 days prior to the redemption date with a copy of such notice to be mailed to each Paying Agent; provided that notice shall be given to any securities depository in accordance with its operational arrangements. Failure to give, or any defect in any mailed notice, shall not affect the validity of any proceedings for the redemption of any Bonds not affected by such failure or defect. In the case of redemption of less than all of the outstanding Bonds, Bonds to be redeemed shall be selected by DTC in accordance with its operational arrangements, or if the book-entry only system is not in effect, by the Trustee by lot, in such manner as the Trustee in its discretion may determine.

PARITY ISSUES

The City has heretofore issued $19,480,000 Sales Tax Revenue Bonds, Series 1991B, dated as of December 1, 1991 (the "Series 1991B Bonds"), $36,665,000 Sales Tax Revenue Bonds, Series 1993, dated December 15, 1993 (the "Series 1993 Bonds"), $15,395,000 Sales Tax Revenue Bonds, Series 1996A, dated December 15, 1996 (the "Series 1996A Bonds"), $24,320,000 Sales Tax Revenue Bonds, Series 1996B, dated December 15, 1996 (the "Series 1996B Bonds"), $8,165,000 Sales Tax Revenue Bonds, Series 1999, dated September 1, 1999 (the "Series 1999 Bonds"), $10,995,000 Sales Tax Revenue Bonds, Series 2001A, dated March 1, 2001, (the "Series 2001A Bonds"), $17,245,000 Sales Tax Revenue Bonds, Series 2001B, dated March 1, 2001 (the "Series 2001B Bonds"), $8,135,000 Sales Tax Revenue Refunding Bonds, Series 2004, dated April 15, 2004 (the "Series 2004 Bonds"), $10,550,000 Sales Tax Revenue Bonds, Series 2006A, dated March 2, 2006 (the "Series 2006A Bonds"), $10,323,000 Sales Tax Revenue Bonds, Series 2006B, dated April 10, 2006 (the "Series 2006B Bonds"), $65,405,000 Sales Tax Revenue Bonds, Series 2007A-1 and $4,595,000 Sales Tax Revenue Bonds, Series 2007A-2, dated May 22, 2007 (the "Series 2007A Bonds) under the Indenture. The City has issued certain notes in connection with the State Revolving Fund ("SRF") loan program, including its Sales Tax Revenue Note, dated May 24, 1990, in the original principal amount of $3,316,310, pursuant to a Loan Agreement, dated as of May 24, 1990, between the South Dakota Conservancy District and the City (the "1990 SRF Loan") and its Sales Tax Revenue Note, dated November 3, 1994, in the original principal amount of $1,500,000, pursuant to a Loan Agreement dated as of November 3, 1994, between the South Dakota Conservancy District and the City (the "1994 SRF Loan") (collectively the 1990 SRF Loan and the 1994 SRF Loan are referred to as the "SRF Loans"). The Series 1991B Bonds, the Series 1993 Bonds, the 1994 SRF Loan, the Series 1996A Bonds, the Series 1996B Bonds and the Series 1999 Bonds have been paid or defeased. The Series 2007B Bonds, the Series 2007A Bonds, Series 2001A Bonds, Series 2001B Bonds, the Series 2004 Bonds, the Series 2006A Bonds, the Series 2006B Bonds and SRF Loans are payable on a parity as to principal, premium, if any, and interest, from the Second Penny Tax; provided, however, that the principal of, premium, if any, and interest on the Series 2001B Bonds and the Series 2004 Bonds ("Third Penny Tax Bonds"), issued pursuant to the Act for projects of the type described in Section 10-52-8 of the Act ("Third Penny Tax Projects"), shall be payable first from any Net Revenues produced as a result of the Third Penny Tax and then revenues produced as a result of the Second Penny Tax will be used for the payment of the principal of, premium, if any, and interest on the

Series 2001B Bonds and the Series 2004 Bonds only if the Third Penny Tax Net Revenues available therefor are insufficient. "Net Revenues" means the gross revenues produced by the Third Penny Tax less the amount of the Third Penny Tax Revenues necessary to pay the operating expenses of the project financed with such proceeds and any other Third Penny Tax Project for which Third Penny Tax Bonds are issued, after the payment of such operating expenses, to the extent possible, from the operating revenues of the project financed with such proceeds and such Third Penny Tax Project. The Net Revenues of the Third Penny Tax do not produced sufficient moneys to pay the debt service on the Series 2001B Bonds and the Series 2004 Bonds. See "Debt Service Coverage."

The principal of, premium, if any, and interest on the Series 2001A Bonds, the 2001B Bonds, the Series 2004 Bonds, the Series 2006A Bonds, the Series 2006B Bonds, the 1990 SRF Loan, the Series 2007A Bonds, the Series 2007B Bonds and any other Additional Bonds ("Second Penny Tax Bonds") issued pursuant to the Act for projects of the type described in Section 10-52-2 of the Act ("Second Penny Tax Projects"), shall be payable from any revenues produced as a result of the Second Penny Tax. **The Series 2007B Bonds are not payable in any event from the proceeds of the Third Penny Tax.**

The deposits with the Trustee will be made by the City so as to satisfy the debt service requirement from the Pledged Sales Taxes and by its internal accounting and transfers of excess Pledged Sales Taxes, the City intends to satisfy the priority of use requirements set forth in the two preceding paragraphs.

Additional Bonds

The City may, from time to time, approve the issuance and delivery of Additional Bonds secured by the Indenture for the purpose of refunding any Bonds or to finance additional projects permitted by law. Each series of Additional Bonds must be authorized by a supplement to the Indenture establishing the terms thereof and providing for Pledged Sales Taxes or other revenues sufficient to pay the Additional Bonds and interest thereon. Each series of Additional Bonds shall be payable from the Pledged Sales Taxes and secured by the Indenture equally and ratably with all other Bonds issued and outstanding under the Indenture. The conditions for issuance of Additional Bonds under the Indenture are as follows:

(1) No payments due under the Indenture are then delinquent.

(2) No Event of Default under the Indenture exists and is uncorrected at the time.

(3) As shown by a certificate of the City Finance Director, the collections of the Second Penny Tax for each of the two full Fiscal Years of the City immediately preceding the date of issue of the Additional Bonds have been at least 150% of the maximum annual debt service in any future Fiscal Year on all Bonds and Additional Bonds then outstanding and the Additional Bonds proposed to be issued.

(4) As long as any Series 2001B Bonds and Series 2004 Bonds are outstanding, as shown by a certificate of the City Finance Director, the collections of the Second Penny Tax for the full Fiscal Year of the City immediately preceding the date of

issue of the Additional Bonds have been at least 170% of the maximum annual debt service in any future Fiscal Year on all obligations secured by the Second Penny then outstanding and the Additional Bonds proposed to be issued; provided that the maximum annual debt service in any future Fiscal Year may be reduced by an amount equal to the lesser of (i) the collections of the Third Penny Tax for the full Fiscal Year of the City immediately preceding the date of issue of the Additional Bonds, or (ii) the scheduled debt service, for the full Fiscal Year of the City immediately preceding the date of issue of the Additional Bonds, on all obligations secured by the Third Penny then outstanding.

(5) The issuance of such Additional Bonds shall not adversely affect the tax-exempt status of any issue of Bonds then outstanding, as evidenced by an opinion of nationally recognized bond counsel.

The City has authorized the issuance of Sales Tax Bonds in an amount not to exceed $5,000,000 plus cost of issuance and debt service reserve funds with the terms and subject to provisions as set forth in the Sales Tax Indenture, but the average interest rate yield on the Sales Tax Bonds shall not exceed 6.0 percent per annum and shall not mature later than 21 years from the date of issue. The City does not expect to issue any other additional bonds in 2007 payable from pledged revenues. See "Debt Service Coverage Table."

Subordinate Lien Obligations

The Indenture permits the City to issue revenue bonds or other obligations secured by a pledge of the Pledged Sales Taxes if (i) such revenue bonds or other obligations are not issued under the Indenture, and (ii) their lien on the Pledged Sales Taxes is expressly made subordinate to the pledge thereof to the Bonds.

SECURITY FOR THE SERIES 2007B BONDS

The Series 2007B Bonds are special limited obligations of the City and payments of principal, premium, if any, and interest related to the Series 2007B Bonds are secured solely by a pledge of the collections of the Pledged Sales Taxes and certain other amounts held under the Indenture by the Trustee. See "THE INDENTURE" and "PARITY ISSUES." The City has covenanted in the Indenture that if at any time the proceeds of Pledged Sales Taxes are not sufficient to pay when due all debt service an the Series 2007B Bonds, the City may nevertheless provide moneys to cure any such deficiency, but only to the extent of funds then legally available for that purpose, and then only if such legally available funds are appropriated for such purpose by the City's governing body. The governing body of the City is not obligated to appropriate funds to cure a deficiency. The Series 2007B Bonds are not general obligations of the City and the City's full faith and credit and taxing powers are not pledged to the payment thereof. The City is not obligated to levy any ad valorem taxes or to expend any moneys of the City to pay the Series 2007B Bonds, except the revenues specifically pledged under the Indenture.

2007B Debt Service Reserve Fund

Pursuant to the Twelfth Supplemental Indenture, the City will establish and is required to maintain a Series 2007B Debt Service Reserve Fund for the benefit of the Series 2007B Bonds, funded in an amount equal to the Series 2007B Debt Service Reserve

Requirement for the Series 2007B Bonds. The City will initially fund the Series 2007B Bonds Reserve Fund in the amount equal to the lesser of (i) 10% of the original principal amount of the Series 2007B Bonds, (ii) 125% of the average annual debt service payments on the Series 2007B Bonds or (iii) the maximum annual debt service payable on the Series 2007B Bonds (the "*Series 2007B Bonds Debt Service Reserve Requirement*"). Deficiencies in the Series 2007B Debt Service Reserve Fund are to be made up within 12 months. See "The Indenture – Debt Service Reserve Fund" herein.

Pledged Sales Taxes and the Indenture

The City levies a non ad valorem tax as defined in Sections 39-16 and 39-47 of the Revised Ordinances of the City, and Ordinance Nos. 70-03, 14-04 and 26-06 codified as Sections 39-16.1 and 39-47.1 of the Revised Ordinances of the City (the "Second Penny Sales Tax Ordinance") a sales tax authorized by South Dakota Codified Laws Chapter 10-52 at the rate of .92% (the "Second Penny Tax"). The Second Penny Tax constitutes the Pledged Sales Taxes. See "DEBT SERVICE COVERAGE" herein.

The collection of City sales and use taxes is required to be administered by the state department of revenue. Taxes collected by the department of revenue on behalf of any city are required to be paid to the City within thirty days after collection. Under the Indenture, the City will assign and pledge to the Trustee, for the benefit of Bondholders, so much of the collections of the Pledged Sales Taxes in each year as are necessary for the payment of the principal of, premium, if any, and interest on the Bonds. The City has covenanted to continue to impose and collect the Pledged Sales Taxes so long as any Bonds are outstanding. The City has also covenanted in the Indenture that if at any time the proceeds of Pledged Sales Taxes are not sufficient to pay when due all debt service on the Bonds the City shall nevertheless provide moneys to cure any such deficiency, but only to the extent that legally available funds are appropriated for such purpose by the City's governing body. The governing body is not obligated to appropriate funds to cure a deficiency.

The Second Penny Tax is used first to pay debt service on the Parity Issues and amounts in excess of such debt service are used for capital improvement projects or to pay debt service on bonds issued for capital improvement projects. The Third Penny Tax is used to pay certain operating expenses of the Sioux Falls Convention Center and the Washington Pavilion with the Net Revenues used for a portion of the debt service on the Series 2001B Bonds and the Series 2004 Bonds.

Sales Tax

The Second Penny Sales Tax can be applied only to those items which are subject to a State sales tax imposed by Chapter 10-52 of the South Dakota Codified Laws (the "State Sales Tax"). The State Sales Tax currently applies to gross receipts, exclusive of discounts and returns, arising from the retail sale of tangible goods, wares or merchandise, the rendering of business services, and the sale of gas, electricity, and telephone services. Various items are excluded from such tax, including, but not limited to, sales of motor vehicles, gasoline and motor fuel, drugs and medicines, water, sales to states, municipalities, charities, Indian tribes, and educational institutions, and receipts from a variety of business services.

Use Tax

The Second Penny Use Tax can be applied only to items which are subject to a State use tax (the "State Use Tax"). The State Use Tax is currently applied to the purchase price of tangible goods, wares or merchandise, the rendering of business services and the purchase of gas and electricity, if such goods or services are furnished or delivered to consumers or users in the State by either an out-of-state retailer maintaining a place of business in the State or by any retailer, upon application to the State to collect such tax, without a place of business in the State. Goods and services to which the State Sales Tax is applied are not subject to an additional State Use Tax. Various items are excluded from application of the State Use Tax, including, without limitation, motor vehicles, raw materials, prescriptive drugs, medicines and other medical devices, sale and use by the State, political subdivisions and certain educational and charitable institutions, and the use of a variety of business services. Under the State Use Tax statute, any person selling and delivering goods or services to residents of the State is required to maintain a list of such sales and submit such list to the State twice a year. The use tax is permitted to be added to the sales price of each item subject to the tax. At the times required under the State Sales Tax statute, such persons must file a use tax return and remit the applicable tax to the State Department of Revenue. Any State Use Tax which is not collected at the time of purchase by the retailer or service provider must be paid directly to the State by the user of the applicable goods or services.

THE PLEDGED SALES TAXES FROM WHICH PRINCIPAL OF AND INTEREST ON THE BONDS ARE PAYABLE ARISE ONLY FROM ITEMS WHICH ARE SUBJECT TO THE STATE SALES TAX OR STATE USE TAX DESCRIBED ABOVE. THE CITY HAS NO CONTROL OVER AND CAN MAKE NO PREDICTION AS TO ANY FUTURE INCLUSIONS TO OR EXCLUSIONS FROM SUCH STATE TAXES OR THE EFFECT THEREOF, IF ANY, ON RECEIPTS OF PLEDGED SALES TAXES.

Historical Collections of Pledged Sales Taxes

The City first imposed the Second Penny Tax in April 1984. Set forth below are the receipts of the Second Penny Tax for the periods stated.

Collections of Second Penny Taxes

Year Ending December 31	Second Penny Collections	Second Penny Percent Increase (Decrease)
2006	$ 38,066,640	8.43%
2005	35,107,816	5.86
2004	33,164,929	7.69
2003	30,796,042	5.65
2002	29,148,126	2.82
2001	28,349,911	2.17
2000	27,748,948	7.85
1999	25,729,080	8.98
1998	23,608,215	7.44
1997	21,973,769	10.08
1996	19,960,806	5.63

DEBT SERVICE COVERAGE

The following table shows pro forma debt service coverage on the obligations payable from the Pledged Sales Taxes including the obligations authorized to be issued in 2007. Table 2 compares annual debt service on all obligations (including the Series 2001B Bonds and Series 2004 Bonds) payable from the Pledged Sales Taxes to the collections of Second Penny Tax for the fiscal year ended December 31, 2006.

Year	Second Penny Sales Tax Revenue[1]	Existing Debt Service on Bonds other than 2007B Bonds[2]	Pro forma Series 2007B Debt Service	Pro forma Total Debt Service after Series 2007B are issued[3]	Pro forma Coverage after Series 2007B are issued[3]
2007	$ 38,066,640	$ 8,700,250		$ 8,700,250	4.38
2008	38,066,640	11,569,596	$ 1,019,778	12,589,374	3.02
2009	38,066,640	11,616,234	2,047,463	13,663,697	2.79
2010	38,066,640	11,617,289	2,044,663	13,661,951	2.79
2011	38,066,640	9,531,344	2,035,463	11,566,807	3.29
2012	38,066,640	9,418,101	2,030,063	11,448,164	3.33
2013	38,066,640	11,075,417	2,028,263	13,103,679	2.91
2014	38,066,640	8,274,592	2,024,863	10,299,454	3.70
2015	38,066,640	7,221,529	2,019,863	9,241,392	4.12
2016	38,066,640	7,223,692	2,013,263	9,236,954	4.12
2017	38,066,640	4,854,738	2,015,063	6,869,800	5.54
2018	38,066,640	4,858,338	2,009,863	6,868,200	5.54
2019	38,066,640	4,837,338	2,001,363	6,838,700	5.57
2020	38,066,640	4,822,088	2,002,363	6,824,450	5.58
2021	38,066,640	4,802,088	2,002,650	6,804,738	5.59
2022	38,066,640	4,782,338	2,000,388	6,782,725	5.61
2023	38,066,640	4,762,588	2,000,575	6,763,163	5.63
2024	38,066,640	4,747,588	1,996,075	6,743,663	5.64
2025	38,066,640	4,731,838	1,991,988	6,723,825	5.66
2026	38,066,640	4,715,088	1,984,338	6,699,425	5.68
2027	38,066,640	4,711,888	1,983,125	6,695,013	5.69
2028	38,066,640	4,707,838		4,707,838	8.09
2029	38,066,640	4,691,588		4,691,588	8.11
2030	38,066,640	4,673,088		4,673,088	8.15
2031	38,066,640	4,709,888		4,709,888	8.08
2032	38,066,640	4,746,088		4,746,088	8.02
2033	38,066,640	4,786,513		4,786,513	7.95
2034	38,066,640	4,825,813		4,825,813	7.89
2035	38,066,640	4,816,313		4,816,313	7.90
2036	38,066,640	4,802,788		4,802,788	7.93

[1] Fiscal Year collections for 2006

[2] Total debt service on obligations to which the Second Penny Tax is pledged including the total debt service due on the Series 2001B Bonds and the Series 2004 Bonds and including the projected maximum annual debt service payable on the Series 2006B Bonds which is not yet fully funded

[3]Does not include $5,000,000 of authorized sales tax bonds which have not been issued

THE INDENTURE

The following is a summary of certain provisions of the Indenture:

Application of Series 2007B Bond Proceeds

The proceeds from the sale of the Series 2007B Bonds (including accrued interest) will be deposited with the Trustee to be applied as follows:

1. The Debt Service Reserve Fund Requirement will be deposited in the Series 2007B Debt Service Reserve Fund hereinafter described.

2. The balance of the Series 2007B Bond proceeds will be used to pay costs of the 2007B Project and issuance expenses of the Series 2007B Bonds.

Bond Fund

The Bond Fund, into which the accrued interest derived from the sale of the Series 2007B Bonds, the collection of the Pledged Sales Taxes and certain other amounts specified in the Indenture will be deposited, will be maintained with the Trustee. While any Bonds are outstanding, moneys in the Bond Fund will be used and withdrawn by the Trustee solely for the payment of principal, premium, if any, and interest on the Bonds and for the redemption of Bonds prior to maturity or to purchase Bonds on the market pursuant to the Indenture.

Debt Service Reserve Fund

The City will maintain the Debt Service Reserve Fund with the Trustee, which Fund contains separate accounts for the Series 2001A Bonds, the Series 2001B Bonds, the Series 2004 Bonds, the Series 2007A and the Series 2007B Bonds. The City will initially fund the Series 2007B Bonds Reserve Fund in the amount equal to the lesser of (i) 10% of the original principal amount of the Series 2007B Bonds, (ii) 125% of the average annual debt service payments on the Series 2007B Bonds or (iii) the maximum annual debt service payable on the Series 2007B Bonds (the "*Series 2007B Bonds Debt Service Reserve Requirement*"). The reserve fund surety bond for the Series 2001B Bonds is 3,872,137.50. The Series 2001A Bond Reserve Requirement was initially funded by the proceeds of the Series 2001A Bonds in the amount of $1,099,500. The reserve fund surety bond for the Series 2004 Bonds is $838,000. The Series 2007A Bond Reserve Requirement was initially funded by the proceeds of the Series 2007A Bonds in the amount of $2,425,000. Funds in the respective accounts in the Debt Service Reserve Fund will be transferred to the Bond Fund whenever there is a deficiency in the amount of money in the Bond Fund necessary to pay maturing principal and interest on the related series of Bonds to which such reserve account applies, after application of all funds available for that purpose under the Indenture.

All moneys and investments in the respective accounts in the Debt Service Reserve Fund shall be and are irrevocably pledged to and shall be used solely for the payment of the interest on the series of Bonds to which such reserve account applies and for the payment,

redemption and retirement of the principal of the series of Bonds to which such reserve account applies.

If the amount on deposit in the Series 2007B Debt Service Reserve Fund is less than the Series 2007B Debt Service Reserve Requirement, the City will deposit funds into the Series 2007B Debt Service Reserve Fund in the next succeeding twelve months not less than the amount necessary to restore the Series 2007B Debt Service Reserve Fund to the Series 2007 to the Series 2007 Debt Service Reserve Requirement

If the amount on deposit in the Series 2007B Debt Service Reserve Fund exceeds the Series 2007B Debt Service Reserve Requirement, the excess thereof may be withdrawn and transferred to the Bond Fund.

Investment of Funds

Any moneys deposited with, or paid to, the Trustee under any provision of the Indenture shall, at the direction of the City, or in the absence of such direction at the initiative of the Trustee, be invested and reinvested by the Trustee (i) in obligations of, or obligations the payment of the principal of and interest on which is directly or indirectly guaranteed by, the United States of America and (ii) in obligations set forth in the Indenture that are permitted under South Dakota Codified Laws Section 4-5-6. The other funds held under the Indenture may be invested in the foregoing investments and also in such other investments as may be approved by Ambac Assurance as long as Series 2001B Bonds and the Series 2004 are outstanding. The Trustee will not make any investments which would cause any of the Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") or "federally guaranteed" within the meaning of Section 149 of the Code.

Pledged Sales Taxes Covenants and Representations

The City covenants that so long as any Bonds remain Outstanding and unpaid:

(a) The City will administer, enforce and collect, or cause to be administered, enforced and collected, the Pledged Sales Taxes in an amount equal to .92 percent of the value of goods and services subject to such taxes and shall take all reasonable action necessary to collect delinquent payments or to cause delinquent payments to be collected in accordance with law.

(b) The City will keep or cause to be kept books and records showing the proceeds of the Pledged Sales Taxes, in which complete entries shall be made in accordance with standard principles of accounting, and any owner of any of the Bonds shall have the right at all reasonable times to inspect such books and records.

(c) The City shall comply with its covenants and obligations set forth in the Continuing Disclosure Agreement.

(d) The City shall continue to impose and collect the Pledged Sales Taxes, shall not reduce the rate of tax on the value of goods and services subject to such tax, and the City shall not exempt any item or transaction from the Pledged Sales Taxes which is subject to the Pledged Sales Taxes on the date of execution of the Indenture.

(e) The City shall, to the extent permitted by law, defend the validity and legality of the Indenture, the Pledged Sales Taxes and the Ordinance, and all amendments thereto, against all claims, suits and proceedings which would diminish or impair the Pledged Sales Taxes as security for the Bonds.

(f) The City, acting by and through its officers, or otherwise, shall faithfully and punctually perform, or cause to be performed, all duties with respect to the Pledged Sales Taxes required by the Constitution and laws of the State and the various ordinances, resolutions and contracts of the City, including, without limitation, the proper segregation of the proceeds of the Bonds and the Pledged Sales Taxes and their application from time to time to the respective funds provided therefor.

(g) The City will perform all contractual obligations undertaken by it under any other agreements relating to the Bonds, Additional Bonds and the Pledged Sales Taxes.

(h) At any and all times the City shall, so for as it may be authorized by law, pass, make, do, execute, acknowledge, deliver and file or record all and every such further instruments and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, the Pledged Sales Taxes and other funds and accounts hereby pledged or assigned, or intended so to be, or which the City may hereafter become bound to pledge or to assign, or as may be reasonable and required to carry out the purposes of the Indenture. The City, acting by and through its officers, or otherwise, shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Sales Taxes and other funds and accounts pledged under the Indenture and all the rights and every owner of any of the Bonds and Additional Bonds against all claims and demands of all persons whomsoever.

(i) The City, its officers, agents and employees, shall not take any action in such manner or to such extent as might prejudice the security for the payment of the Bonds according to the terms thereof. No contract shall be entered into nor any other action taken by which the rights of any Registered Owner of any Bond or other security payable from Pledged Sales Taxes might be prejudicially and materially impaired or diminished.

(j) Each City officer or employee having custody of any Pledged Sales Taxes, or responsible for their handling, shall be bonded at all times, which bond shall be conditioned upon the proper application of said moneys.

Although levied by the City, the sales taxes imposed by the Ordinance (including the Pledged Sales Taxes) are collected by the State of South Dakota and remitted to the City twice a month. No covenant of the City with respect to Pledged Sales Taxes obligates the City to undertake or perform any duty, task or obligation to be performed by the State.

Pledged Sales Taxes

The proceeds of the sales taxes levied pursuant to the Ordinance (less service and collection fees charged by the State of South Dakota against such amounts) are remitted to the City by the State of South Dakota. Promptly upon receipt of each such remittance, the City shall:

(A) determine the amount of such remittance which constitutes Pledged Sales Taxes and the amount of such remittance which constituted the proceeds of the Second Penny Tax and the Third Penny Tax; and

(B) beginning on November 16 of each Bond Year, (i) allocate such Pledged Sales Taxes among the SRF Loans and the Bonds on the basis of their respective debt service payable during such Bond Year, and (ii) segregate the SRF Loans portion of the Pledged Sales Taxes for the payment of the SRF Loans until the aggregate amount segregated equals the debt service on the SRF Loans to become due during such Bond Year, and (iii) remit to the Trustee for deposit in the Bond Fund the entire amount of the Pledged Sales Taxes remaining after segregation of the SRF Loans portion until the aggregate amount remitted equals or exceeds the total amount of principal and interest to become due on all Bonds during such Bond Year;

On the 10th day of each month, the City shall provide to the Trustee a Remittance Certification, stating the amount of Pledged Sales Taxes, remitted to the Trustee during the preceding month, and on a cumulative basis for the current Bond Year.

At such time during each Bond Year as the amount remitted to the Trustee for deposit in the Bond Fund is sufficient to satisfy the City's obligation, the Trustee shall provide written notice of such fact to the City, and the City shall be under no further obligation to remit Pledged Sales Taxes to the Trustee for the remainder of that Bond Year, except for any required remittances to fund the Series 2007B Debt Service Reserve Fund at the Series 2007B Debt Service Reserve Requirement. Nothing in the Indenture precludes the City from remitting moneys to the Trustee from sources other than Pledged Sales Taxes, but the City is under no obligation to do so.

Defaults and Remedies

The following shall constitute events of default under the Indenture.

1. default in the due and punctual payment of interest on any Bond or Additional Bond;

2. default in the due and punctual payment of the principal of, or premium, if any, on any Bond or Additional Bond, whether at the stated maturity thereof or by declaration of acceleration, call for redemption or otherwise;

3. default in the due and punctual payment of any other moneys required to be paid by the City to the Trustee for deposit in the Bond Fund under the Indenture and continuation of such default for a period of five (5) days following written notice thereof to the City;

4. default by the City in the due and punctual payment of any other moneys required to be paid to the Trustee under the provisions of the Indenture and such default shall have continued for a period of thirty (30) days after written notice thereof to the City; or

5. default by the City in the performance or observance of any other covenant, agreement or condition contained in the Indenture or the Bonds or Additional Bonds

and the continuation of such default for a period of thirty (30) days following written notice thereof to the City.

Upon the occurrence of an event of default, the Trustee may, by notice in writing delivered to the City, declare the principal of all outstanding Bonds or Additional Bonds to be immediately due and payable and may, in addition, pursue any available remedy at law or in equity to enforce the rights of the Bondholders. The Trustee may direct the City in writing to remit all collections of Pledged Sales Taxes directly to the Trustee, and the Trustee shall apply the moneys received to satisfy the obligations of the City under the Indenture. If any event of default shall have occurred and the holders of 51% in aggregate principal amount of the then outstanding Bonds or Additional Bonds shall so request and the Trustee has received an indemnity bond as provided in the Indenture, the Trustee shall be obligated to exercise such rights and powers conferred upon it by the Indenture as it deems most expedient in the interest in the Bondholders; provided, however, that the Trustee shall have the right to decline to comply with any such request if the Trustee shall be advised by independent counsel that the action so requested may not lawfully be taken or if the Trustee in good faith should determine that such action would be unjustly prejudicial to any Bondholders not parties to such requests. The Trustee may in its discretion waive any event of default and its consequences and rescind any declaration of acceleration provided that there shall not be waived any event of default in the payment of the principal of or premium of any outstanding Bonds or Additional Bonds on the redemption date or on the date of maturity specified therein or any event of default in the payment when due of the interest on any Bond or Additional Bonds unless prior to such waiver all arrearages of interest, principal and premium, with interest on such amounts to the extent permitted by law, have been paid or provided for.

Modifications

The Indenture may not be modified or amended without the consent of the holders of not less than fifty-one percent in aggregate principal amount of the Bonds or Additional Bonds outstanding except to:

1. provide for the issuance of additional series of Bonds or Additional Bonds to the extent permitted by the Indenture or to facilitate the remarketing of the Bonds or Additional Bonds on a Mandatory Purchase Date;

2. cure any ambiguity or formal defect or omission in the Indenture or in any supplemental indenture;

3. grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Trustee;

4. more precisely identify the Trust Estate, or any other property which may become a part of the Trust Estate;

5. subject to the lien and pledge of the Indenture additional revenues, properties or collateral;

6. evidence the appointment of a separate trustee or a co-trustee or the succession of a new Trustee and/or Paying Agent under the Indenture;

7. modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to prevent any interest on the Bonds from becoming taxable under the Federal income tax laws or to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar Federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939, excluding however the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939; and

8. make any other change which is required by any provision of the Indenture, or which in the judgment of the Trustee is necessary or desirable and will not materially prejudice any non-consenting Holder of a Bond or Additional Bond.

In any event, no such modification or amendment shall be made without consent of the Holders of all Bonds or Additional Bonds adversely affected thereby which will permit:

1. an extension of the maturity of the principal or of the interest on any Bond or Additional Bond issued under the Indenture, or a reduction in the principal amount of any Bond or Additional Bond or the rate of interest thereon;

2. a privilege or priority of any Bond or Bonds or Additional Bonds over any other Bond or Bonds or Additional Bonds except as may be otherwise expressly provided in the Indenture;

3. a reduction in the aggregate principal amount of the Bonds or Additional Bonds required for consent to such supplemental indenture; or

4. a reduction in the percentage of holders of Bonds or Additional Bonds required for consent to such supplemental indentures.

CONTINUING INFORMATION

In order to permit the City to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City will agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Series 2007B Bonds, in a Continuing Disclosure Agreement, dated as of May 1, 2007 (the "Continuing Disclosure Agreement"), between the City and the Trustee, as agent, to provide annual reports of specified information and notice of the occurrence of certain material events. The information to be provided on an annual basis, the events as to which notice is to be given and a summary of other provisions of the Continuing Disclosure Agreement, including termination, amendment and remedies, are set forth in Appendix F to this Official Statement.

Breach of the Continuing Disclosure Agreement will not constitute a default or an "Event of Default" under the Indenture or the Series 2007B Bonds. A broker or dealer is to consider a known breach of the Continuing Disclosure Agreement before recommending the

purchase or sale of the Series 2007B Bonds in the secondary market. Thus, a failure on the part of the City to observe the covenants contained in the Continuing Disclosure Agreement may adversely affect the transferability and liquidity of the Series 2007B Bonds and their market price.

TAX MATTERS

In the opinion of Lindquist & Vennum P.L.L.P., Bond Counsel, under present law interest on the Series 2007B Bonds is not includable in gross income for federal income tax purposes. Interest received by the owners of the Series 2007B Bonds is includable in gross income for South Dakota tax purposes when the recipient is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. In rendering its opinion, Bond Counsel will rely on certain covenants and representations on the part of the City concerning the nature and cost of the facilities being financed from proceeds of the Series 2007B Bonds and the application and investment of proceeds of the Series 2007B Bonds. Moreover, certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), impose continuing requirements that must be met after the issuance of the Series 2007B Bonds in order for interest thereon to be and remain not includable in federal gross income. Noncompliance with such requirements by the City may cause the interest on the Series 2007B Bonds to be includable in federal gross income, retroactive to date of issuance of the Series 2007B Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of the Series 2007B Bonds or for an increase in the interest rate on the Series 2007B Bonds in the event that interest on the Series 2007B Bonds becomes includable in federal gross income.

Interest on the Series 2007B Bonds is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers, but is includable in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax. Interest on the Series 2007B Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Series 2007B Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account the interest on the Series 2007B Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Series 2007B Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest with respect to the Series 2007B Bonds. Prospective purchasers or owners of the Series 2007B Bonds should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of

alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

Original Issue Discount

The initial public offering price of the Series 2007B Bonds maturing in the years 2019, 2021, 2022 and 2027 (the "Discounted Series 2007B Bonds") is less than the principal amount payable thereon at maturity. As a result, the Discounted Series 2007B Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discounted Series 2007B Bonds as set forth on the inside cover page of this Official Statement (assuming it is the first price during the initial offering (the "Issue Price") at which a substantial amount of such maturity is sold to the public), and the principal amount payable at maturity of the Discounted Series 2007B Bonds will be treated as "original issue discount." With respect to a taxpayer who purchases a Discounted Series 2007B Bonds in the initial public offering at the Issue Price and who holds such Discounted Series 2007B Bonds to maturity, the full amount of original issue discount will constitute interest which is not includable in the gross income of the owner of such Discounted Series 2007B Bonds for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discounted Series 2007B Bonds upon maturity.

The original issue discount on each of the Discounted Series 2007B Bonds is treated as accruing daily over the term of such Discounted Series 2007B Bonds on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on June 1 and December 1 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discounted Series 2007B Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discounted Series 2007B Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discounted Series 2007B Bonds (including sale, redemption or payment at maturity). An owner of a Discounted Series 2007B Bonds who disposes of such Discounted Series 2007B Bond prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discounted Series 2007B Bond prior to maturity.

As described above regarding tax-exempt interest, a portion of the original issue discount that accrues in each year to an owner of a Discounted Series 2007B Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's alternative minimum tax liability and the branch profits tax liability. Corporate owners of any Discounted Series 2007B Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or a branch profits tax liability although the owners of such Discounted Series 2007B Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discounted Series 2007B Bonds in the initial public offering but at a price different than the Issue Price should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Series 2007B Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discounted Series 2007B Bonds. Owners who do not purchase Discounted Series 2007B Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Series 2007B Bonds.

Owners of Discounted Series 2007B Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Series 2007B Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discounted Series 2007B Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

Bond Premium

The Series 2007B Bonds maturing in the years 2009 through 2018, 2020 and 2023 through 2026 (the "Premium Series 2007B Bonds") are being sold at a price greater than the principal amounts payable on such Series 20007 Bonds at maturity. To the extent that a purchaser of a Premium Series 2007B Bond acquires a Premium Series 2007B Bond at a price greater than the principal amount payable at maturity, such excess may be considered "amortizable bond premium" under Section 171 of the Code. In general, any amortizable bond premium with respect to a Premium Series 2007B Bond must be amortized under the Code. The amount of premium so amortized will reduce the owner's basis in such Premium Series 2007B Bond for Federal income tax purposes, and such amortized premium is not deductible for Federal income tax purposes. In the case of tax-exempt debt instruments subject to early call such as the Premium Series 2007B Bonds maturing in the years 2018, 2020 and 2023 through 2026, the bond premium rules include special rules that impact the period over which the premium is amortized. The rate of the amortization of the bond premium and the corresponding basis reduction may result in a holder realizing a taxable gain when a Premium Series 2007B Bond owned by such holder is sold or disposed of for an amount equal to or less than such Premium Series 2007B Bond's original cost. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption, maturity, receipt or payment or other disposition of a Premium Series 2007B Bond.

ENFORCEABILITY OF OBLIGATIONS

On the closing date for delivery of the Series 2007B Bonds, Bond Counsel will deliver its opinion, dated the date thereof, that the Series 2007B Bonds and the Indenture are valid and legally binding obligations of the City enforceable in accordance with their terms. The foregoing opinion will be generally qualified to the extent that enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and to the exercise of judicial discretion in accordance with general principles of equity.

While the Series 2007B Bonds are secured or payable pursuant to the Indenture, practical realization of any security upon a default will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified by such instruments may not be readily available or may be limited.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been

made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), and in September 2007, MBIA Mexico became licensed to write financial guarantee insurance in Mexico.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2007, MBIA had admitted assets of $11.0 billion (unaudited), total liabilities of $6.8 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2007 and for the nine month periods ended September 30, 2007 and September 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

2. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

RATING

Moody's Investors Service has assigned a rating of "Aaa" to the Series 2007B Bonds. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2007B Bonds.

MISCELLANEOUS

There is no controversy or litigation of any nature now pending or, to the knowledge of the City, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, the establishment or collection of the Pledged Sales Taxes, or in any way

contesting or affecting the validity of the Series 2007B Bonds, the establishment or collection of the Pledged Sales Taxes, or any proceedings of the City taken with respect thereto.

The foregoing summaries do not purport to be comprehensive or definitive and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the Series 2007B Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of these documents are available for inspection during the period of the offering at the offices of the Financial Consultant in Sioux Falls, South Dakota, and thereafter at the principal office of the Trustee. All information contained in the Appendices to this Official Statement has been furnished by the City.

UNDERWRITING

The Series 2007B Bonds have been sold at a competitive bond sale by the City to the purchaser and they have agreed to purchase the Series 2007B Bonds at a price of $25,797,234.36 (representing the principal amount of $25,570,000, less the underwriter's discount of $286,677.49 which included the insurance premium). If all of the Series 2007B Bonds are reoffered at the yields stated on the inside front cover of this Official Statement, the net reoffering premium would be $495,911.85.

FINANCIAL ADVISOR

Dougherty & Company LLC, Sioux Falls, South Dakota, is under contract with the City to provide financial advisory services to the City, as well as assistance with the competitive sale of the Series 2007B Bonds.

CERTIFICATES CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Series 2007B Bonds, the Mayor and the Director of Finance of the City will deliver to the purchaser of each series of the Series 2007B Bonds a certificate stating that, to the best of their knowledge, this Official Statement did not as of its date and as of the sale date and does not, as of the date of delivery of the Series 2007B Bonds, contain an untrue statement of a material fact or omit to state a material fact required to be included therein for the purpose for which this Official Statement is to be used or necessary to make the statements therein, in the light of the circumstances under which they were made not misleading.

By /s/_____
Dave Munson, Mayor

By /s/_____
Eugene Rowenhorst, Director of Finance

APPENDIX A –
CITY OF SIOUX FALLS, SOUTH DAKOTA

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GENERAL INFORMATION

For more detailed information about the City, please go to www.siouxfalls.org.

Demographics

Set forth below are certain demographic statistics:

Fiscal Year	City Population[1]	Per Capita Personal Income[2]	School Enrollment[3]	Annual Average Unemployment Rate[2]
2006	148,000	N/A	19,821	2.7%
2005	144,600	N/A	19,630	3.3
2004	141,000	$34,234	20,337	3.4
2003	138,000	33,174	19,623	3.1
2002	134,600	32,128	19,478	2.8

Sources: [1] City Planning Department end of year estimates.
[2] South Dakota Department of Labor (for the Sioux Falls Metropolitan Statistical Area)
[3] South Dakota Department of Education fall enrollment (for Sioux Falls Public Schools)

City Government

The City was incorporated in 1889 and currently operates under its home rule charter. The charter permits the City to exercise any legislative power or perform any legislative function not denied by its charter, the constitution, or the general laws of South Dakota. The City government is composed of a full-time strong mayor and a City Council of eight part-time council members, three to be elected at large and five elected from districts. The City Council acts as a policy-making and legislative body. The mayor is responsible for management and administration of the City.

City Council

Name	Position	Term Expires
Dave Munson	Mayor	2010
Vernon Brown	Councilmember-At Large	2008
J. Pat Costello	Councilmember-At Large	2010
De Knudson	Councilmember-At Large	2010
Robert E. Jamison	Councilmember-Southwest District	2008
Kevin Kavanaugh	Councilmember-Northeast District	2008
Robert Litz	Councilmember-Northwest District	2008
Gerald Beninga	Councilmember-Southeast District	2010
Kermit Staggers	Councilmember-Central District	2010

City Officials

Eugene Rowenhorst	Director of Finance	Appointed
Gary Colwill	City Attorney	Appointed

City Services

Protective Services are provided by a Police Department employing 254, which operates 66 vehicular patrol units. The City's Fire Department consists of 193 employees operating from 9 fire stations with 18 pieces of motorized firefighting equipment. The City also provides water, sanitary sewer and storm sewer services, solid waste disposal facilities, airport facilities and a transit system and operates a comprehensive public recreation program.

Construction

Set forth below is data for building permits issued in the City for the past five years:

Fiscal Year	Number of Permits	Value
2006	6,419	$ 441,811,983
2005	6,701	463,105,323
2004	6,902	396,937,153
2003	6,697	346,645,088
2002	7,723	280,340,362

Major Employers

Name	Product/Service	Number of Employees
Sanford Health fka Sioux Valley Hospital	Medical	6,424
Avera McKennan Health Services	Medical	4,290
John Morrell & Co.	Meat Processing	3,200
Citigroup	Financial	3,200
Wells Fargo Bank	Financial	3,048
Sioux Falls Public Schools	Education	3,000
HyVee Food Stores	Retail Grocery	1,863
WalMart/Sam's Club	Retail	1,160
First Premier Bank/Premier Bankcard Financial	Financial	1,105
Evangelical Lutheran Good Samaritan Society	Nursing Home	1,006

Source: Sioux Falls Development Foundation

FINANCIAL INFORMATION

Financial Reports

Copies of the Audited Annual Financial Report of the City's funds for the years 2003-2005, and the 2006 and 2007 budgets are available at www.siouxfalls.org. See Note No. 1 in Appendix A for an explanation of methods used in reporting. Excerpts of the City's comprehensive financial report for the year ended December 31, 2006, are presented in Appendix B to the Official Statement. The City's accounts are audited annually by an independent certified public accountant. The City has received from the Government Finance Officers Association, its Certificate of Achievement for Excellence in Financial Reporting in each year since 1980, and its Distinguished Budget Presentation Award in each year since 1990.

Results of Operation

The General Fund is the primary operating fund for the City. Revenues and expenditures for the years 2004-2006 are outlined in the following table. Schedules of revenues and expenditures of various funds of the City have been compiled from information obtained in the City's financial statements and budget. They have been organized in such a manner as to facilitate year-to-year comparisons.

	2006	2005	2004
Revenues			
Taxes	$ 76,873,020	$ 71,059,546	$ 66,770,404
Licenses and permits	3,994,868	4,967,567	4,434,456
Intergovernmental revenues	6,800,111	6,866,364	7,816,186
Charges for goods and services	4,170,337	4,490,705	4,456,252
Fines and forfeits	1,147,628	1,256,988	1,007,510
Interest (Investment revenues)	2,798,696	1,367,970	694,799
Miscellaneous revenues	881,627	916,362	851,096
Total Revenues	$ 96,666,287	$ 90,925,502	$ 86,030,703
Expenditures			
Current:			
General government	$ 10,463,202	$ 10,679,235	$ 10,123,624
Public safety	37,739,072	34,362,530	32,142,269
Highways and streets	14,440,969	15,963,968	15,160,773
Health	6,571,869	6,254,196	6,086,350
Culture and recreation	16,848,972	14,823,418	13,839,799
Urban and economic development	4,603,141	4,408,913	4,061,607
Total Current Expenditures	$ 90,667,225	$ 86,492,260	$ 81,414,422
Capital outlay	384,590	2,119,474	2,368,680
Debt service	61,354	61,734	61,414
Total Expenditures	$ 91,113,169	$ 88,673,468	$ 83,844,516
Revenues Over (Under) Expenditures	$ 5,553,118	$ 2,252,034	$ 2,186,187

	2006	2005	2004
Other Financing Sources (Uses):			
Sale of surplus property/damage recovery	90,355	84,030	88,918
Operating transfers in	430,777	80,275	403,032
Operating transfers out	(2,604,500)	(3,163,999)	(3,333,268)
Total Other Financing Sources (Uses)	(2,083,368)	(2,999,094)	(2,841,318)
Revenue and other sources over (under) expenditures and other uses	3,469,750	(747,060)	(655,131)
Fund Balances January 1	**$ 27,038,869**	**$ 27,785,929**	**$ 28,441,060**
Prior Period Adjustment	3,633,908	--	--
Adjusted Fund Balance January 1	30,672,777	27,785,929	28,441,060
Fund Balances (Deficit), December 31	**$ 34,142,527**	**$ 27,038,869**	**$ 27,785,929**

Budgetary Process

By August 1 in each year the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to encourage public input. The Council must, prior to September 30, enact the budget by ordinance. If the Council fails to approve a budget by September 30, the Mayor's proposed budget becomes the City's budget for the following fiscal year. After adoption, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted. If it is determined during the year that sufficient amounts have not been budgeted, the City Charter allows the adopting of supplemental appropriations.

FUTURE FINANCING OF THE CITY

The City has authorized the issuance of Sales Tax Bonds in an amount not to exceed $5,000,000 plus cost of issuance and debt service reserve funds with the terms and subject to provisions as set forth in the Sales Tax Indenture, but the average interest rate yield on the Sales Tax Bonds shall not exceed 6.0 percent per annum and shall not mature later than 21 years from the date of issue which are payable from pledged revenues. The City intends to issue additional notes in connection with SRF loans payable from utility revenues in estimated amounts of $22.7 million from water revenues and $20.5 million from sewer revenues, $7.0 million for BANS payable from Special Assessment Bonds and $2.3 million for Tax Increment Financing Bonds payable from taxes collected from Tax Increment District #5 in 2007 and 2008.

CITY OBLIGATIONS

Set forth below are the current outstanding obligations (as of September 30, 2007) which the City is obligated or committed to pay:

Type of Issue		Purpose	Original Issue Amount	Amount Outstanding (09/30/07)
Revenue Bonds & Notes				
Series 2001A Sales Tax Bonds	*	Public Safety Construction	$ 10,995,000	$ 6,815,000
Series 2001B Sales Tax Bonds	*	Partial Refunding (1993)	17,320,000	17,035,000
Series 2004 Sales Tax Bonds	*	Partial Refunding (1993)	8,135,000	5,400,000
Series 2007A Sales Tax Bonds	*	Lewis & Clark Rural Water System	70,000,000	70,000,000
Capital Leases 2005		Health Dept. Building	1,290,902	715,703
Series 2000 Parking Revenue Bonds		Parking Construction	5,075,000	3,320,000
2007 State Revolving Note SW #1		Landfill Improvements	1,800,000	1,800,000
Drinking Water				
State Revolving Note #1, 1999		System Construction	6,496,745	2,268,117
State Revolving Note #2, 2001		System Construction	2,348,168	1,420,027
State Revolving Note #3, 2002		System Construction	7,930,000	5,619,651
State Revolving Note #4, 2003		System Construction	279,599	218,278
State Revolving Note #5, 2004		System Construction	7,907,184	7,907,184
Clean Water				
State Revolving Note #1, 1990	*	System Construction	2,836,963	848,485
State Revolving Note #13, 1997		System Construction	2,083,137	214,786
State Revolving Note #14, 2000		System Construction	4,431,766	2,596,872
State Revolving Note #15, 2002		System Construction	1,467,706	1,091,219
State Revolving Note #16, 2003		System Construction	2,322,456	1,935,883
State Revolving Note #17, 2003		System Construction	561,320	430,259
State Revolving Note #18, 2004		System Construction	3,386,440	3,386,440
State Revolving Note #19, 2004		System Construction	415,785	368,968
State Revolving Note #20, 2005		Storm Drainage Construction	25,281,522	25,281,522
State Revolving Note #21, 2005		System Construction	30,368,590	30,368,590
State Revolving Note #22, 2006	*	Storm Drainage Construction	10,550,000	10,550,000
State Revolving Note #23, 2006†	*	System Construction	8,499,264	8,499,264
State Revolving Note #24, 2006		Landfill Improvements	188,676	188,678
				$208,345,243

† Authorized for $10,325,000, expected to be fully funded by the end of fiscal year 2007
* Secured by pledge of the second (.92%) penny sales and use tax.

In addition, the City has $3,475,000 Sales Tax Revenue Bonds which are being paid from an Escrow Account established in connection with the refunding thereof, see the City Financial Statements included as Appendix B.

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APPENDIX B –
2006 AUDITED FINANCIALS

EXCERPTS FROM THE
COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on the Basic Financial Statements and Supplementary Information

The Honorable Mayor and
Members of the City Council
City of Sioux Falls, South Dakota

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sioux Falls, South Dakota as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Sioux Falls. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Housing and Redevelopment Commission, a discretely presented component unit, which represent 100 percent of the assets, net assets, and revenues of the aggregate discreetly presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of another auditor, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sioux Falls, South Dakota as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2007, on our consideration of the City of Sioux Falls' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information, listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Sioux Falls. The introductory section, combining nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of the City of Sioux Falls. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Eide Bailly LLP

March 24, 2007
Sioux Falls, South Dakota

Management's Discussion and Analysis

This discussion and analysis presents an overview of the financial activities and financial position for the City of Sioux Falls (the "City") for the year ended December 31, 2006. Please read and consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

Financial Highlights

Government-wide Statements

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $931.0 million (net assets). Of this amount, $71.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $72.7 million, an increase of $0.6 million in comparison with the prior year. Of this total amount, $54.5 million is available for spending at the government's discretion (unreserved fund balance).

- At the end of the current fiscal year, unreserved fund balance for the general fund was $31.6 million, or 31.4 percent of the total general fund adjusted expenditure budget for the current fiscal year. Although the initial budget included the use of $3.1 million in unreserved fund balance within the General Fund in 2006, actual results added $3.5 million.

Long-term Debt

- The City's total outstanding debt increased by $30.3 million ending the current fiscal year at $121.9 million outstanding. Governmental fund debt increased by $11.8 million as notes were issued to the South Dakota Conservancy District to fund storm drainage improvements. Debt within the business-type funds increased by $18.5 million as water reclamation borrowed from the South Dakota Conservancy District for the expansion of the east side sanitary sewer system.

- Debt pledged against the City's second penny (.92) sales and use tax (Sales and Use Tax Fund) had a net decrease of $1.9 million as the City made final payments on the 1996 A & B and 1999 bonds and added the pledge to two notes (SRF #22 and #23) for storm drainage and water reclamation improvements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, health, culture and recreation, and urban and economic development. The business-type activities of the City include the enterprise activities of the electric light, public parking, sanitary landfill, water, and water reclamation operations.

The government-wide financial statements include not only the City of Sioux Falls itself (known as the primary government), but also a legally separate housing and redevelopment authority for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City is such that the exclusion would cause the City's financial statements to be misleading or incomplete. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 24-26 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Management's Discussion and Analysis

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities in the government-wide financial* statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Entertainment Tax Fund, Sales and Use Tax Fund, the Community Development Fund, and the Storm Drainage Fund, all of which are considered to be major funds. Data from the other seven governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements following the notes to the financial statements.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided as required supplementary information for the major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found beginning on page 27 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Sioux Falls uses enterprise funds to account for its electric light, public parking, sanitary landfill, water, and water reclamation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses internal service funds to account for its health, workers' compensation, and liability programs, fleet *of vehicles and maintenance shop, and for its management* of information systems equipment. All of these services predominantly benefit governmental rather than business-type functions; therefore, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, all of which are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 95-100 of this report.

The basic proprietary fund financial statements can be found beginning on page 35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City's fiduciary funds consist of the two pension trust funds, the Employee's Retirement System and the Firefighters' Pension Fund. The basic fiduciary fund financial statements for these funds can be found on pages 41 and 42 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule and related notes for the General Fund and each major special revenue fund, as well as information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 69-77 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

Management's Discussion and Analysis

Government-wide Financial Analysis

Net assets. As presented in the following table, the City's assets exceeded liabilities by $931.0 million at the close of the fiscal year ending December 31, 2006.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	$ 100,073,429	$ 117,368,896	$ 40,660,884	$ 36,510,585	$ 140,734,313	$ 153,879,481
Capital Assets	533,304,308	607,359,380	304,012,212	337,053,163	837,316,520	944,412,543
Total Assets	633,377,737	724,728,276	344,673,096	373,563,748	978,050,833	1,098,292,024
Long-term Liabilities Outstanding	56,982,041	64,433,057	40,278,985	54,500,229	97,261,026	118,933,286
Other Liabilities	11,484,936	34,491,738	10,331,841	13,834,815	21,816,777	48,326,553
Total Liabilities	68,466,977	98,924,795	50,610,826	68,335,044	119,077,803	167,259,839
Net Assets:						
Invested in Capital Assets, net of related debt	473,928,456	536,081,574	264,708,442	279,304,517	738,636,898	815,386,091
Restricted	42,473,253	35,907,724	7,680,030	7,922,881	50,153,283	43,830,605
Unrestricted	48,509,051	53,814,183	21,673,798	18,001,306	70,182,849	71,815,489
Total Net Assets	$ 564,910,760	$ 625,803,481	$ 294,062,270	$ 305,228,704	$ 858,973,030	$ 931,032,185

By far the largest portion of the City's net assets, 87.6 percent, is investments in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets comprise 4.7 percent of total net assets. These assets are subject to external restrictions on how they may be used.

The remaining balance of $71.8 million, 7.7 percent, in unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Certain balances within unrestricted net assets have internally imposed designations or limitations which may further limit the purpose for which such net assets may be used. For example, a large portion of the unrestricted net assets within the City's Sales and Use Tax Fund has been set aside to provide for projects that are carried forward from the previous year's capital program but do not have outstanding contracts or encumbrances.

Changes in net assets. The City's net assets increased by $72.1 million, or 8.4 percent, during the current fiscal year as shown on the following table. This increase is attributable to the City's investment in infrastructure and other assets as the City continued to grow at a favorable rate in 2006. More details that account for the change in net assets are provided in the following analysis of the governmental and business-type activities.

Management's Discussion and Analysis

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program Revenues:						
Charges for Services	$ 12,971,073	$ 12,584,325	$ 34,156,635	$ 37,044,854	$ 47,127,708	$ 49,629,179
Operating Grants and Contributions	9,091,638	10,899,399	21,875	210,285	9,113,513	11,109,684
Capital Grants and Contributions	16,117,162	32,473,149	10,107,337	9,620,305	26,224,499	42,093,454
General Revenues:						
Property Taxes	30,271,442	32,492,570	-	-	30,271,442	32,492,570
Sales Taxes	78,974,054	84,449,592	-	-	78,974,054	84,449,592
Other (Frontage) Taxes	5,145,770	6,024,188	-	-	5,145,770	6,024,188
Grants and Contributions not Restricted to Specific Programs	1,501,905	1,437,750	-	-	1,501,905	1,437,750
Other	2,709,220	5,102,296	758,588	658,492	3,467,808	5,760,788
Total Revenues	156,782,264	185,463,269	45,044,435	47,533,936	201,826,699	232,997,205
Expenses:						
General Government	16,668,888	16,812,452	-	-	16,668,888	16,812,452
Public Safety	35,095,686	37,829,494	-	-	35,095,686	37,829,494
Highways & Streets	25,991,340	25,741,910	-	-	25,991,340	25,741,910
Health	6,288,178	6,501,873	-	-	6,288,178	6,501,873
Culture & Recreation:	23,365,686	26,198,202	-	-	23,365,686	26,198,202
Urban & Economic Development:	8,565,257	9,594,921	-	-	8,565,257	9,594,921
Interest on Long-term Debt	2,596,902	2,334,457	-	-	2,596,902	2,334,457
Electric Light	-	-	5,075,181	4,887,717	5,075,181	4,887,717
Public Parking	-	-	1,842,290	2,155,659	1,842,290	2,155,659
Sanitary Landfill	-	-	3,307,532	4,013,197	3,307,532	4,013,197
Water	-	-	13,913,651	14,347,689	13,913,651	14,347,689
Water Reclamation	-	-	9,837,933	10,520,479	9,837,933	10,520,479
Total Expenses	118,571,937	125,013,309	33,976,587	35,924,741	152,548,524	160,938,050
Excess before Transfers	38,210,327	60,449,960	11,067,848	11,609,195	49,278,175	72,059,155
Transfers	(172,238)	442,761	172,238	(442,761)	-	-
Change in Net Assets	38,038,089	60,892,721	11,240,086	11,166,434	49,278,175	72,059,155
Net Assets - Beginning	526,872,671	564,910,760	282,822,184	294,062,270	809,694,855	858,973,030
Net Assets - Ending	$ 564,910,760	$ 625,803,481	$ 294,062,270	$ 305,228,704	$ 858,973,030	$ 931,032,185

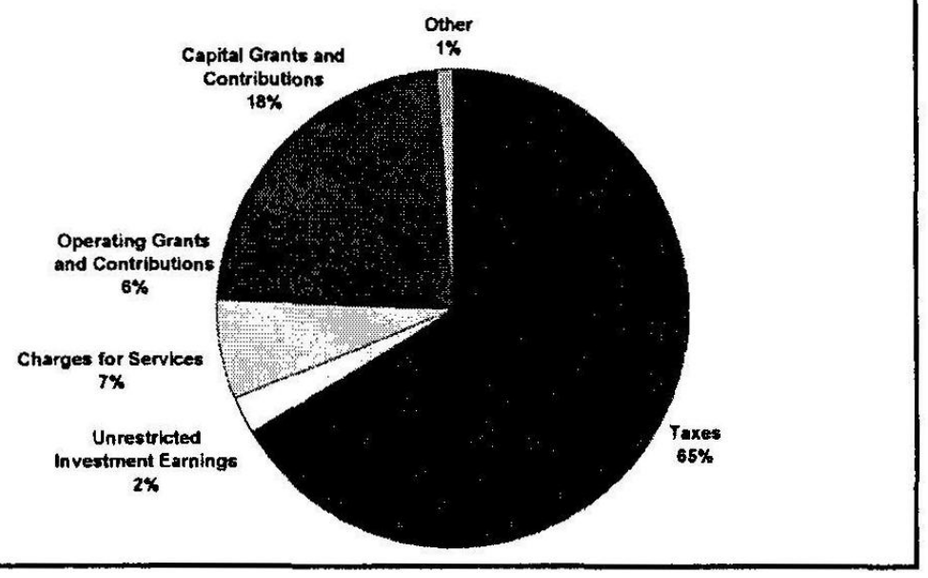
Governmental activities. Governmental activities increased the City's net assets by $60.9 million, thereby accounting for 84.5 percent of the total growth in the net assets of the City of Sioux Falls. Although much of the increase is attributable to the difference between capital outlay and depreciation as indicated in the reconciliation of the governmental fund statements on page 33 of this report, the following key elements contributed to this increase:

- An increase in revenues, excluding capital grants and contributions, of $12.3 million. Almost $7.7 million of this growth was derived from increases in property and sales tax collections due to economic growth.
- Capital grants and contributions added another $16.4 million to the change in net assets. A majority of the capital grants and contributions was from construction of highways and streets completed by private developers and from state and federal projects.
- Expenditure growth of $6.4 million or a 5.4 percent increase offset a portion of the growth in revenue and contributions.

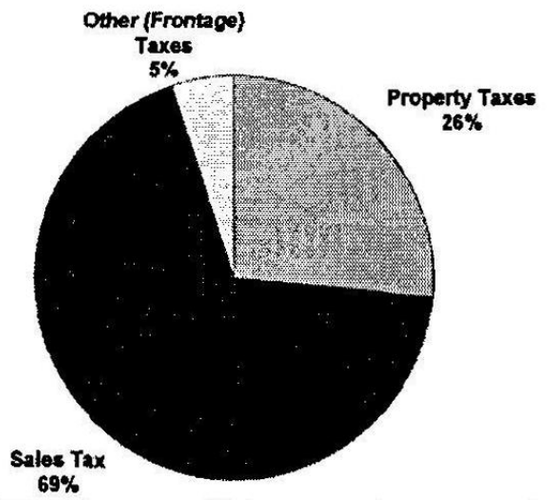
Management's Discussion and Analysis

The charts below summarize the City's revenue and expenses:

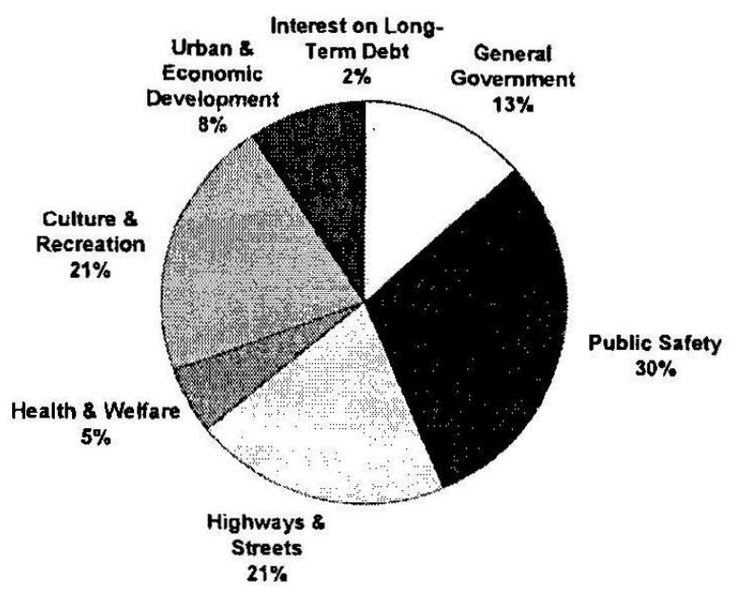
Revenue by Source—Governmental Activities



Tax Revenue by Type—Governmental Activities



Expenses by Function—Governmental Funds

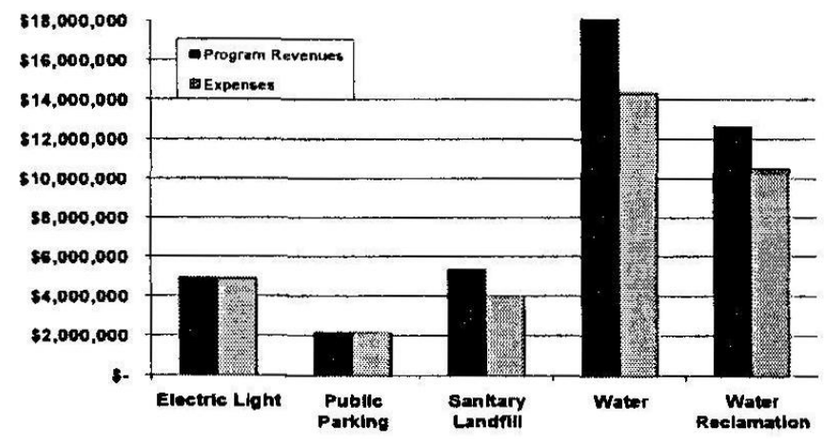


Business-type activities. Business-type activities increased the City's net assets by $11.2 million, accounting for 15.5 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

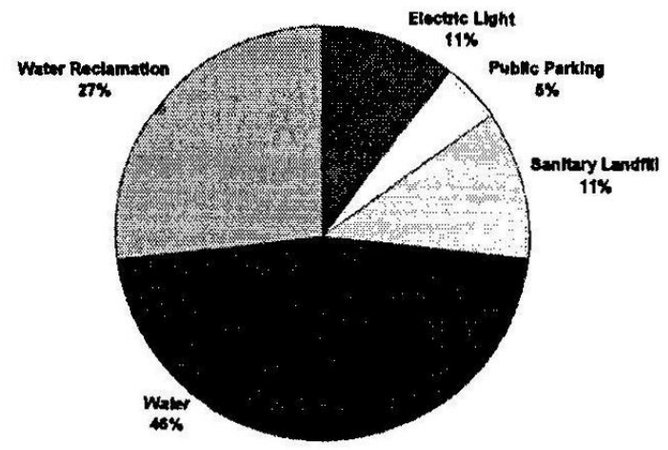
- Operating gains and losses offset each other to yield no net gain or loss within the business-type activities.
- Contributed capital from private developers added more than $9.0 million of the $9.6 million in capital grants and contributions to the balance sheet of the business-type activities.

The following graphs present a summary of the business-type activities revenues and expenses:

Expenses and Program Revenues—Business-type Activities



Revenues by Activity—Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required statutorily while others are established internally to assist management in accounting for certain activities.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may

Management's Discussion and Analysis

serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $72.7 million, an increase of $0.6 million in comparison with the prior year. The majority of the increase was realized in the General Fund.

Approximately 75.1 percent, or $54.5 million, of this combined ending fund balance constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: (1) to pay debt service ($5.5 million); (2) to provide for capital purchases or construction projects ($7.2 million); or (3) for a variety of other restricted purposes ($5.4 million).

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was $34.1 million, with an unreserved fund balance of $31.6 million. This unreserved fund balance represents 31.4 percent of the adjusted general fund expenditure budget. The General Fund saw an increase in unreserved fund balance of $3.8 million, as in addition to favorable revenue growth, the City experienced expenditure savings due to the favorable weather conditions in 2006 impacting snow removal and energy costs and direct spending control by the City departments.

Major contributing factors to the $5.7 million growth in revenue were: (1) an increase in property tax revenue by $2.2 million or 7.3 percent. This increase was comprised of the statutorily provided 2.6 percent inflationary adjustment and a 4.7 percent increase for new growth; (2) an increase in sales tax revenue of $3.2 million or 8.3 percent; and (3) an increase in investment revenue of $1.4 million due to higher short-term interest rates combined with a shift in the yield curve which maintained market valuations. Higher average daily cash balances also contributed to the increase in interest revenue. License and permit revenue recognized a $1 million decrease as the City sold all remaining liquor licenses in 2005, leaving no licenses available for sale in 2006. This decrease in liquor license revenue was offset in-part by another strong year in building permit sales.

Expenditures within the General Fund increased by $4.2 million, or 4.8 percent, in 2006. The increase in spending was accounted for by operating increases, excluding capital outlay, within the following functions:

General Fund Operating Expenditure Increases

	Operating Expenditures			
	2005	2006	Increase(Decrease)	
General Government	$ 10,679,235	$ 10,463,202	$ (216,033)	-2.0%
Public Safety	34,362,530	37,739,072	3,376,542	9.8%
Highways & Streets	15,963,968	14,440,969	(1,522,999)	-9.5%
Health	6,254,196	6,571,869	317,673	5.1%
Culture & Recreation	14,823,418	16,848,972	2,025,554	13.7%
Urban & Econ Development	4,408,913	4,603,141	194,228	4.4%

The increase in public safety includes 15 new fire positions as Fire Station #10 on the City's west side came online in 2006. In addition, the police department added five new positions and absorbed the Metro Communications contract as an operating expenditure within the General Fund. The culture and recreation function saw an increase in expenditures in part related to increased contributions to the operation and maintenance of the Great Plains Zoo within Parks and Recreation. Renovation costs associated with the Orpheum Theater project within the Arena budget also contributed to the increase in this function.

Expenditures within Highways and Streets were lower than the year previous primarily due to favorable weather conditions resulting in much lower snow removal costs than the previous year.

The **Sales and Use Tax Fund** saw a decrease in fund balance of $4 million to a balance of $26.8 million, $17.2 million of which is unreserved. This decrease is due to the completion of projects that had been encumbered or carried forward from previous years. Offsetting this unreserved fund balance, the City will carry-forward and add to next year's budget capital improvement projects without contracts or encumbrances of $11.1 million for projects or components of projects which have not been started. Sales and use tax collections in the fund were up by 8.4 percent over the previous year.

The **Entertainment Tax** and **Community Development Funds** experienced increases in fund balances during 2006 primarily due to lower expenditures than anticipated. The Entertainment Tax Fund ended the year with a $3.1 million unreserved fund balance, much of which will be dedicated to debt service in future years. Entertainment tax (third penny) receipts increased by 5.8 percent over the previous year.

The **Storm Drainage Fund** experienced a decrease in fund balance of $2.2 million during 2006 as the Fund continues to follow the growth in development. Development fee increases have been approved and implemented in 2007 and drainage fee adjustments have been approved to be implemented in 2008. These increases are necessary to provide the Fund with the ability to construct the capital infrastructure needed to keep pace with growth and development as well as to maintain the current system.

Proprietary (business-type) funds. The City of Sioux Falls' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The following table depicts the unrestricted net assets and the increase or decrease over previous years for the individual enterprise funds.

Management's Discussion and Analysis

Proprietary Funds - Net Assets

	Unrestricted Net Assets		
	2005	2006	Increase (Decrease)
Electric Light	$ 2,135,398	$ 1,670,279	$ (465,119)
Public Parking Facilities	1,196,866	1,411,102	214,236
Sanitary Landfill	1,775,926	1,206,061	(569,865)
Water	11,563,667	8,922,898	(2,640,769)
Water Reclamation	4,816,036	4,049,230	(766,806)

The decrease in unrestricted net assets within the proprietary (enterprise) funds is generally related to costs of capital assets as all five enterprise funds experienced positive cash flow from operating activities. The fast pace of development within the City continues to place increased demands on the City's need for infrastructure to support this growth. This demand for expanding infrastructure has a definite impact on the enterprise (utility) funds as they require the necessary resources to keep pace with such development. Four of the five enterprise funds (Electric Light, Sanitary Landfill, Water, and Water Reclamation) have already undergone extensive rate reviews utilizing both external consultants and internal resources. The final enterprise fund (Public Parking) has a public parking feasibility and utilization study underway, which will also include a review of the public parking rate structure.

The City's rate structure for these various utilities compares very favorably both locally and regionally as there have been very few rate adjustments in the recent past. Thus, the City has the capacity to increase rates within most of these utility funds while maintaining a very competitive rate structure for these services. The City will conduct annual rate reviews for these enterprise funds to ensure that rates are adequate to fund both ongoing operating costs and capital infrastructure build-outs.

The decrease in the unrestricted net assets of the **Water Fund** is from continued spending on capital assets for system upgrades and the development of a supplemental water supply through the Lewis & Clark Rural Water System (LCRWS). The Water Fund used $9.8 million of cash flow for capital and related financing activities during the year while generating $6.8 million in operating cash flow for comparable activities.

Upon completion of the initial rate and water needs analysis in 2005, the City approved the first in a series of anticipated water rate adjustments effective on April 1, 2006. During the year, the water rate analysis was updated by an independent engineering consultant based upon the consideration of the City's pre-payment of its portion of the LCRWS project (described in Note 5 on page 61). This project is projected to provide for the City's future supplemental water needs from 2012 to beyond 2040. A second rate increase was adopted in December to become effective on February 1, 2007.

The City is planning to issue bonds during 2007 for the pre-payment of the LCRWS project costs. To fund this pre-payment, the City is anticipating further water rate adjustments over the next several years.

The **Water Reclamation Fund** saw a decrease in unrestricted net assets due to continued investment in infrastructure assets as $3.0 million in operating cash flow was offset with an outflow of $4.2 million in cash flows from capital and related financing activities.

With the use of an independent engineering consultant, the City completed a comprehensive rate study for the **Water Reclamation Fund** in 2006. The analysis reviewed current and future development that is anticipated to meet the needs of the growth occurring within the City. This includes the repayment of state revolving notes being used to finance the planned expansion of the Eastside Sanitary Sewer System, which is currently under construction and will initially open 9,000 acres of land to development in late 2007. With further capital investments, this project will open up a total of 23,000 acres to development.

The rate analysis indicated that in order to keep pace with development, a series of rate adjustments are required. The first rate increase was approved to be implemented on January 1, 2007. The City is anticipating further rate adjustments over the next several years.

Based upon a comprehensive rate analysis compiled by a consulting engineering firm, rates in the **Sanitary Landfill Fund** were increased in order to fund ongoing expansion and increased costs associated with closure and post-closure care. The new rates became effective on September 1, 2006. The results of the rate study also indicated that an additional rate adjustment will be necessary at the beginning of 2008.

Upon completion of an extensive rate study conducted by an outside engineering firm, the **Electric Light Fund** implemented a rate increase effective on November 1, 2007. Higher energy costs and a renegotiated agreement for supplemental power impacting operating costs combined with capital projects necessitated this increase. The results of the rate study indicated that an additional rate adjustment will be necessary at the beginning of 2008.

The **Public Parking Fund** is currently undergoing a comprehensive parking utilization, feasibility and rate study. Although the fund can meet ongoing operating needs and small construction projects through ramp revenue and receipt of parking fines, the City will need to carefully consider funding alternatives for any significant future ramp expansion in the downtown core.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended budget were $1.2 million or 1.2 percent. The budget adjustments were primarily to recognize unanticipated grant revenues and encumbered expenditures within the police, health, and arena budgets.

Although the final amended budget provided for the use of $3.7 million ($3.1 million original) in unreserved fund balance, the City actually recognized a $3.5 million positive change to fund balance. This difference is due to:
1) investment, bank franchise tax, and building permit fee revenue well in excess of budget offset shortfalls in other

Management's Discussion and Analysis

revenue categories; 2) recognized savings in snow removal and energy costs due to favorable weather conditions; 3) health premiums for active members, both employer and employee, were suspended for two payroll periods as the City's self-funded internal service health fund achieved an adequate reserve balance due to moderating medical care, prescription drug, and hospital charge inflation and lower overall claims experience within the active employee group; and 4) direct spending control by the City departments.

Capital Assets and Debt Administration

Capital assets. The investment in capital assets for the governmental and business-type activities as of December 31, 2006, amounted to $944.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, intangibles, and construction in progress.

Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	$ 106,924,260	$ 112,186,010	$ 10,512,139	$ 10,727,793	$ 117,436,399	$ 122,913,803
Buildings	90,605,231	88,994,152	16,952,160	17,359,433	107,557,391	106,353,585
Improvements Other Than Buildings	44,786,955	46,677,459	22,654,492	12,074,331	67,441,447	58,751,790
Machinery and Equipment	23,198,636	22,642,371	14,959,374	14,799,688	38,158,010	37,442,059
Infrastructure	251,236,864	321,025,373	220,796,455	239,424,342	472,033,319	560,449,715
Intangibles	879,669	951,214	5,806,088	9,771,510	6,685,757	10,722,724
Construction in Progress	15,672,693	14,882,801	12,331,504	32,896,066	28,004,197	47,778,867
Total Assets	$ 533,304,308	$ 607,359,380	$ 304,012,212	$ 337,053,163	$ 837,316,520	$ 944,412,543

The City's investment in capital assets, net of accumulated depreciation, increased by $107.1 million in the current fiscal year. This increase was due in large part to the addition of the following capital assets during the current fiscal year:

- The completion of a variety of street construction and reconstruction projects (including donated and annexed streets) totaling $40.8 million.

- The completion of light, water, wastewater, and storm drainage infrastructure totaling $59.7 million, including improvements to eight storm drainage basins, the continued construction of the Eastside Sanitary Sewer System, and contributions to the Lewis and Clark Rural Water System.

- The construction of Fire Station #10 totaling $1.33 million.

- The construction of a compost pad/public drop off area at the Landfill as well as a new recycling building totaling $2.3 million.

Additional information on capital assets can be found in Note 3 in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, the City of Sioux Falls had total debt outstanding of $121.9 million. Of this amount, $29.3 million comprises revenue bonds secured solely by sales and use and entertainment tax revenues, and $3.3 million of bonds backed by revenues of the public parking system. The second penny (.92) sales and use tax, storm drainage, water, and water reclamation funds back $88.5 million of debt, which are notes issued by the South Dakota Conservancy District.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Bonds	$ 41,615,000	$ 29,250,000	$ 3,650,000	$ 3,320,000	$ 45,265,000	$ 32,570,000
Notes	9,823,632	34,117,258	33,958,769	54,428,646	43,782,401	88,545,904
Certificates of Participation	-	-	1,695,000	-	1,695,000	-
Installment Obligations	930,314	820,229	-	-	930,314	820,229
Total	$ 52,368,946	$ 64,187,487	$ 39,303,769	$ 57,748,646	$ 91,672,715	$ 121,936,133

The City made principal payments of $18.0 million; however, the net effect on debt with new issuances was an increase of $30.3 million during the current fiscal year as state revolving fund notes were drawn upon to fund storm drainage, sanitary sewer, and water improvements. There are currently $31.7 million in authorized but undrawn revenue notes for storm drainage, water, and water reclamation capital improvements. It is anticipated that a substantial portion of these undrawn amounts will be drawn in 2006.

Management's Discussion and Analysis

As discussed in the notes to the financial statements, the City has approved, but not yet issued, two additional issuances of second penny sales and use tax revenue bonds.

The first, which became effective in January of 2007, authorized up to $70 million in bonds for the prepayment of the City's share of the Lewis and Clark Rural Water System project to supply supplemental water to the City. This supplemental water supply is anticipated to meet the expected growth in the City's water needs to beyond 2040. Although secured by a pledge of the second penny sales tax, these bonds are expected to be repaid with water rate revenues.

The second, adopted in March of 2007, authorized the issuance of up to $35 million in bonds. As anticipated within the City's 2007-2011 Capital Improvement Program adopted in 2006, these bonds are to fund the expansion and renovation of the downtown main library, the construction of a sports facility (softball complex) at Harmodon Park, and the construction of a new swimming pool at Nelson Park. These bonds will be secured by a pledge of the City's second penny sales and use tax as well as being repaid by this revenue source.

The City carries an 'Aa3' bond rating from Moody's and an 'AA-' from Standard and Poor's on the sales and use tax revenue bonds, although all issues have been insured to Aaa quality. The public parking revenue bonds maintain an 'A3' rating from Moody's, and the certificates of participation carry an 'Aa2' rating.

The State Constitution limits the amount of debt a governmental entity may issue based upon three categories as described in the notes to the financial statements. Currently, all of the City's debt is classified under the category of general-purpose debt, which is limited to five percent of assessed valuation of the taxable property. The current general-purpose debt limitation for the City is $403 million, which is $281 million in excess of the City's outstanding bonded debt.

Additional information on the City of Sioux Falls' long-term debt can be found beginning on page 56 of this report.

Economic Outlook and Next Year's Budget

With an 8.3 percent increase year over year, the City continued to see solid growth from its largest source of revenue, the sales and use tax in 2006. Averaged with the 5.9 percent growth for 2005, the growth rate for the last two years has averaged 7.1 percent annually, which is consistent with recent historical averages. The timing of tax receipts may account for much of the fluctuation from year-to-year; however, the growth trend remains solid. The City adopted the FY2007 budget anticipating a sustained sales tax growth rate of 7.0 percent.

The City's second largest source of tax revenue, property tax, as certified for the 2007 budget reflects a 7.7 percent increase which included an inflationary adjustment of 3.0 percent and 4.7 percent for new growth. The favorable trend in building permits for the past several years for both commercial and residential development will continue to pay dividends as the completion of the permitted construction begins to impact property valuations.

During the current fiscal year, unreserved fund balance in the general fund increased by $3.5 million to $31.6 million. The current adjusted budget in 2007 anticipates the use of $2.5 million of this unreserved fund balance in the General Fund. This use of fund balance is projected to produce a year-end unreserved fund balance of approximately 27.5 percent of the 2007 expenditure budget.

When looking at the statistical and financial figures, it becomes evident that the City continues to experience very favorable economic growth. With major expansion plans being announced within the City's health care industry, it appears that the City will see continued strong development and employment growth. When combined with the fact that a large amount of land is already being designed for development, the City is anticipating strong future development and solid economic growth over the next several years.

These favorable economic trends will require the City to continue to properly anticipate and plan for both infrastructure build-outs and the operating impacts generated by such positive economic activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Sioux Falls' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, 224 West Ninth Street, City of Sioux Falls, Sioux Falls, SD 57104, (605) 367-8860

Statement of Net Assets

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing & Redevelopment Commission
Assets				
Cash and Cash Equivalents	$ 75,283,233	$ 15,275,766	$ 90,558,999	$ 991,518
Investments	-	77,962	77,962	465,973
Receivables, net	23,085,172	4,371,502	27,456,674	322,544
Prepaid Items	-	-	-	30,181
Internal Balances	(618,936)	618,936	-	-
Due From Other Governments	9,492,919	21,332	9,514,251	119,306
Inventory of Supplies and Stores	2,345,050	2,636,299	4,981,349	67,392
Unamortized Debt Issuance Costs	-	74,268	74,268	-
Restricted Assets:				
Cash and Cash Equivalents	2,021,349	13,434,520	15,455,869	187,923
Investments	5,748,722	-	5,748,722	5,947
Accrued Interest	11,387	-	11,387	-
Capital Assets:				
Land	112,186,010	10,727,793	122,913,803	504,280
Buildings, net	88,994,152	17,359,433	106,353,585	1,768,091
Improvements Other Than Buildings, net	46,677,459	12,074,331	58,751,790	-
Machinery and Equipment, net	22,642,371	14,799,688	37,442,059	254,537
Infrastructure, net	321,025,373	239,424,342	560,449,715	29,015
Intangibles, net	951,214	9,771,510	10,722,724	-
Construction in Progress	14,882,801	32,896,066	47,778,867	-
Total Assets	724,728,276	373,563,748	1,098,292,024	4,746,707
Liabilities				
Accounts Payable and Other Current Liabilities	7,270,641	976,460	8,247,101	217,688
Interest Payable	540,682	572,160	1,112,842	108
Prepaid Revenue	-	107,864	107,864	-
Advances from other Funds	-	-	-	-
Closure & Postclosure Care Costs	-	6,795,921	6,795,921	-
Deposits	-	365,011	365,011	-
Unearned Revenue	18,232,116	-	18,232,116	2,210
Long-term Liabilities:				
Due Within One Year	8,448,299	5,017,399	13,465,698	58,542
Due In More Than One Year	64,433,057	54,500,229	118,933,286	795,020
Total Liabilities	98,924,795	68,335,044	167,259,839	1,073,568
Net Assets				
Invested in Capital Assets, net of related debt	536,081,574	279,304,517	815,386,091	1,880,454
Restricted for:				
Inventories	1,887,687	-	1,887,687	-
Encumbrances	7,153,219	-	7,153,219	-
Capital Projects	17,162,128	-	17,162,128	-
Capital Replacement	-	7,415,381	7,415,381	-
Community Development	613,790	-	613,790	-
Debt Service	5,504,189	507,500	6,011,689	-
Permanent Funds:				
Nonexpendable	26,711	-	26,711	-
Other Purposes	3,560,000	-	3,560,000	502,030
Unrestricted	53,814,183	18,001,306	71,815,489	1,290,655
Total Net Assets	$ 625,803,481	$ 305,228,704	$ 931,032,185	$ 3,673,139

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Function/Program Activities	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	$ 16,812,452	$ 2,502,068	$ 3,290,631	$ 86,943
Public Safety:				
Fire Protection	16,149,522	103,375	422,385	-
Police Protection	21,679,972	242,009	379,081	-
Highways and Streets	25,741,910	715,899	1,811,337	32,136,571
Health	6,501,873	2,265,039	1,677,009	-
Culture and Recreation:				
Arena	1,592,175	281,396	-	-
Libraries	5,157,613	163,105	704,129	51,755
Parks and Recreation	15,269,450	1,203,672	184,921	197,880
Pavilion	4,178,964	-	-	-
Urban and Economic Development:				
Convention Center/CVB	2,342,721	424,215	-	-
Community Development	3,524,370	1,592,484	2,205,909	-
Planning and Building Services	3,727,830	3,091,063	223,997	-
Interest on Long-Term Debt	2,334,457	-	-	-
Total Governmental Activities	125,013,309	12,584,325	10,899,399	32,473,149
Business-type Activities:				
Electric Light	4,887,717	4,770,629	-	157,310
Public Parking	2,155,659	2,186,337	-	-
Sanitary Landfill	4,013,197	5,339,958	35,244	-
Water	14,347,689	15,910,153	175,041	5,621,839
Water Reclamation	10,520,479	8,837,777	-	3,841,156
Total Business-type Activities	35,924,741	37,044,854	210,285	9,620,305
Total Government	$ 160,938,050	$ 49,629,179	$ 11,109,684	$ 42,093,454
Component Unit:				
Housing & Redevelopment Commission	$ 11,431,872	$ 542,052	$ 10,536,304	$ -

General Revenues:
Taxes:
Property Tax
Sales Tax
Frontage Tax
Amusement Tax
Unrestricted State and County Shared Revenues
Unrestricted Investment Earnings
Miscellaneous Revenue, Net
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Statement of Activities (cont)

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Housing and Redevelopment Commission
$ (10,932,810)	$ -	$ (10,932,810)	
(15,623,762)	-	(15,623,762)	
(21,058,882)	-	(21,058,882)	
8,921,897	-	8,921,897	
(2,559,825)	-	(2,559,825)	
(1,310,779)	-	(1,310,779)	
(4,238,624)	-	(4,238,624)	
(13,682,977)	-	(13,682,977)	
(4,178,964)	-	(4,178,964)	
(1,918,506)	-	(1,918,506)	
274,023	-	274,023	
(412,770)	-	(412,770)	
(2,334,457)	-	(2,334,457)	
(69,056,436)	-	(69,056,436)	
-	40,222	40,222	
-	30,678	30,678	
-	1,362,005	1,362,005	
-	7,359,344	7,359,344	
-	2,158,454	2,158,454	
-	10,950,703	10,950,703	
(69,056,436)	10,950,703	(58,105,733)	
		$ (353,516)	
		731,583	
32,492,570	-	32,492,570	-
84,449,592	-	84,449,592	-
6,007,541	-	6,007,541	-
16,647	-	16,647	-
1,437,750	-	1,437,750	-
4,690,677	1,172,196	5,862,873	70,261
411,619	(513,704)	(102,085)	(4,117)
442,761	(442,761)	-	-
129,949,157	215,731	130,164,888	797,727
60,892,721	11,166,434	72,059,155	444,211
564,910,760	294,062,270	858,973,030	3,228,928
$ 625,803,481	$ 305,228,704	$ 931,032,185	$ 3,673,139

Balance Sheet - Governmental Funds

	General	Entertainment Tax	Sales and Use Tax
Assets			
Cash and Cash Equivalents	$ 30,111,820	$ 3,221,950	$ 21,080,622
Receivables:			
Taxes-Delinquent	729,715	-	-
Accounts (net of allowance for uncollectibles)	1,314,837	118,699	-
Interest and Penalty	680,465	45,203	17,657
Special Assessments	-	-	1,421,861
Rehabilitation Loans and Grants	-	-	-
Due from Other Funds	5,809	-	1,500
Due from Other Governments	2,165,075	165,999	1,513,475
Inventory of Supplies and Stores	1,724,921	-	-
Advances to Other Funds	-	-	522,800
Notes Receivable	-	-	1,293,483
Restricted Assets:			
Cash and Cash Equivalents	779,342	10,546	267,086
Investments	-	2,516,852	3,231,870
Accrued Interest	-	11,387	-
Total Assets	$ 37,511,984	$ 6,090,636	$ 29,350,354
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	$ 301,552	$ 37,297	$ 761,551
Interest Payable	2,710	128,557	404,995
Due to Other Funds	-	-	-
Accrued Wages	2,534,886	-	-
Advances from other Funds	-	-	-
Deferred Revenue	530,309	-	1,384,447
Total Liabilities	3,369,457	165,854	2,550,993
Fund Balances			
Reserved for:			
Interfund Advances	-	-	522,800
Inventories	1,724,921	-	-
Encumbrances	43,339	432,076	4,659,653
Debt Service	-	2,410,228	3,093,961
Notes Receivable	-	-	1,293,483
Other Purposes	779,342	-	-
Unreserved, Reported in:			
General Fund	31,594,925	-	-
Special Revenue Funds	-	3,082,478	17,229,464
Capital Project Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balances	34,142,527	5,924,782	26,799,361
Total Liabilities and Fund Balances	$ 37,511,984	$ 6,090,636	$ 29,350,354

The notes to the financial statements are an integral part of this statement.

Balance Sheet - Governmental Funds (cont)

Community Development	Storm Drainage	Other Governmental Funds	Total Governmental Funds
$ 193,986	$ 2,971,966	$ 3,605,136	$ 61,185,480
-	-	-	729,715
-	38,816	2,300	1,474,652
13,766	38,513	36,551	832,155
-	-	-	1,421,861
16,360,885	-	-	16,360,885
-	-	-	7,309
-	23,453	86,303	3,954,305
-	-	162,766	1,887,687
-	-	-	522,800
425,211	-	-	1,718,694
964,375	-	-	2,021,349
-	-	-	5,748,722
-	-	-	11,387
$ 17,958,223	$ 3,072,748	$ 3,893,056	$ 97,877,001
$ 109,198	$ 2,093,677	$ 94,595	$ 3,397,870
1,198	3,222	-	540,682
-	7,309	-	7,309
19,638	19,150	130,748	2,704,422
-	-	400,000	400,000
16,250,024	-	-	18,164,780
16,380,058	2,123,358	625,343	25,215,063
-	-	-	522,800
-	-	162,766	1,887,687
-	1,998,920	19,231	7,153,219
-	-	-	5,504,189
-	-	-	1,293,483
964,375	-	26,711	1,770,428
-	-	-	31,594,925
613,790	(1,049,530)	2,301,606	22,177,808
-	-	710,228	710,228
-	-	47,171	47,171
1,578,165	949,390	3,267,713	72,661,938
$ 17,958,223	$ 3,072,748	$ 3,893,056	$ 97,877,001

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Total Fund Balances for Governmental Funds		$ 72,661,938
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital Assets	$ 901,314,543	
Accumulated Depreciation	(301,045,481)	600,269,062
Internal service funds are used by management to charge the costs of fleet management, insurance programs, and technology equipment to individual funds. The assets and liabilities of the internal service funds are included in the Statement of Net Assets as follows:		
Governmental Activities	20,870,196	
Business-Type Activities	(809,072)	20,061,124
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Installment Obligations	(820,230)	
Notes Payable-Revenue	(34,117,258)	
Bonds Payable-Revenue	(29,250,000)	
Accrued Sick Leave	(8,524,571)	(72,712,059)
Long-term receivables are not due and receivable in the current period and therefore are not reported in the funds.		5,523,416
Net Assets of Governmental Activities		$ 625,803,481

The notes to the financial statements are an integral part of this statement.

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Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds

	General	Entertainment Tax	Sales and Use Tax
Revenues			
Taxes:			
Property	$ 32,492,570	$ -	$ -
Sales	41,290,585	4,335,280	38,066,640
Frontage	2,519,581	-	-
Lodging	504,266	-	-
Amusement	16,647	-	-
Penalties and Interest	49,371	-	-
Special Assessments	-	-	1,164,510
Licenses and Permits	3,994,868	-	-
Intergovernmental	6,800,111	-	830,400
Charges for Goods and Services	4,170,337	11,341	-
Fines and Forfeitures	1,147,628	-	-
Investment Revenue	2,798,696	529,099	384,524
Rentals/Operating Leases	517,533	412,874	-
Contributions	294,802	-	65,858
Miscellaneous Revenue	69,292	-	46,100
Total Revenues	96,666,287	5,288,594	40,558,032
Expenditures			
Current:			
General Government	10,463,202	-	-
Public Safety	37,739,072	-	(19,809)
Highways and Streets	14,440,969	-	89,084
Health	6,571,869	-	9,528
Culture and Recreation	16,848,972	1,624,798	104,641
Urban and Economic Development	4,603,141	660,023	30,000
Debt Service:			
Principal	27,917	295,000	12,152,166
Interest and Fiscal Charges	33,437	1,106,305	1,189,679
Capital Outlay	384,590	626,260	31,329,775
Total Expenditures	91,113,169	4,312,386	44,885,064
Revenues Over (Under) Expenditures	5,553,118	976,208	(4,327,032)
Other Financing Sources (Uses)			
Sale of Surplus Property	57,586	693	-
Damage Recovery	32,769	-	-
Revenue Note Issuance	-	-	-
Transfers In	430,777	-	362,682
Transfers Out	(2,604,500)	(87,575)	(69,433)
Total Other Financing Sources (Uses)	(2,083,368)	(86,882)	293,249
Net Change in Fund Balances	3,469,750	889,326	(4,033,783)
Fund Balances, January 1	27,038,869	5,035,456	30,833,144
Prior period adjustment	3,633,908	-	-
Fund Balances, January 1, as adjusted	30,672,777	5,035,456	30,833,144
Fund Balances, December 31	$ 34,142,527	$ 5,924,782	$ 26,799,361

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds (cont)

Community Development	Storm Drainage	Other Governmental Funds	Total
$ -	$ -	$ -	$ 32,492,570
-	-	-	83,692,505
-	3,487,960	-	6,007,541
-	-	-	504,266
-	-	-	16,647
-	-	-	49,371
-	1,069,391	-	2,233,901
-	4,540	-	3,999,408
1,862,707	-	2,724,399	12,217,617
-	-	683,289	4,864,967
-	-	60	1,147,688
84,700	134,886	119,116	4,051,021
1,592,484	-	-	2,522,891
-	-	1,429	362,089
145,228	-	468	261,088
3,685,119	4,696,777	3,528,761	154,423,570
-	-	5,553,751	16,016,953
-	-	-	37,719,263
-	872,451	76,126	15,478,630
-	-	-	6,581,397
-	-	3,539	18,581,950
3,183,228	-	397,017	8,873,409
-	118,643	-	12,593,726
-	(4,510)	-	2,324,911
-	30,289,760	1,725,770	64,356,155
3,183,228	31,276,344	7,756,203	182,526,394
501,891	(26,579,567)	(4,227,442)	(28,102,824)
18	-	-	58,297
-	-	22,814	55,583
-	24,412,814	-	24,412,814
254,500	-	2,350,000	3,397,959
(343,202)	-	-	(3,104,710)
(88,684)	24,412,814	2,372,814	24,819,943
413,207	(2,166,753)	(1,854,628)	(3,282,881)
1,114,941	3,072,199	4,969,039	72,063,648
50,017	43,944	153,302	3,881,171
1,164,958	3,116,143	5,122,341	75,944,819
$ 1,578,165	$ 949,390	$ 3,267,713	$ 72,661,938

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Fund Balances - Total Governmental Funds		$ (3,282,881)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as deprecation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Expenditures for Capital Assets	$ 64,356,155	
Gains/Losses on Capital Assets	(765,661)	
Capital Assets transferred from Business-type Activities	149,512	
Capital Assets transferred to Business-type Activities	(157,311)	
Less Current Year Depreciation	(21,834,116)	41,748,579
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Developer Contributions of Infrastructure		29,989,180
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal Payments	12,593,726	
Arbitrage Rebate	91,446	
Revenue Note Proceeds	(24,412,814)	(11,727,642)
Some revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.		
Due From Other Governments - Taxes		252,821
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		(123,863)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported within governmental activities.		4,036,527
Change in Net Assets of Governmental Activities		$ 60,892,721

The notes to the financial statements are an integral part of this statement.

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Statement of Net Assets - Proprietary Funds

	Enterprise Funds		
	Electric Light	Public Parking	Sanitary Landfill
Assets			
Current:			
Cash and Cash Equivalents	$ 1,052,154	$ 1,756,551	$ 2,323,797
Investments	-	-	-
Receivables, net:			
Accounts	368,476	228	689,579
Interest	13,677	29,372	97,410
Special Assessments	-	-	-
Unbilled	194,526	-	-
Due From Other Funds	-	-	3,863
Due From Other Governments	-	4,864	15,908
Inventory of Supplies and Stores	565,494	-	4,738
Total Current Assets	2,194,327	1,791,015	3,135,295
Noncurrent:			
Restricted Cash and Cash Equivalents	-	507,500	5,204,251
Unamortized Debt Issuance Costs	-	74,268	-
Capital Assets:			
Land	1,366	3,862,490	1,779,970
Buildings	417,522	-	3,501,666
Improvements Other Than Buildings	9,250	16,392,230	7,417,818
Machinery and Equipment	929,824	388,598	88,308
Infrastructure	21,892,433	-	404,378
Intangibles	-	-	-
Construction in Progress	34,053	-	759,105
Less: Accumulated Depreciation	(9,327,220)	(10,398,113)	(2,247,520)
Total Noncurrent Assets	13,957,228	10,826,973	16,907,976
Total Assets	16,151,555	12,617,988	20,043,271
Liabilities			
Current:			
Accounts Payable	260,054	10,614	51,787
Accrued Wages	34,053	33,200	52,473
Prepaid Revenue	-	107,864	-
Accrued Interest	-	23,974	-
Incurred But Not Reported Claims	-	-	-
Due To Other Funds	2,760	-	-
Notes Payable-Revenue	-	-	-
Bonds Payable-Revenue	-	345,000	-
Deposits	37,060	17,038	3,525
Total Current Liabilities	333,927	537,690	107,785
Noncurrent:			
Accrued Compensated Absences	190,121	138,691	229,779
Advances From Other Funds	-	122,800	-
Closure & Postclosure Care Costs	-	-	6,795,921
Notes Payable-Revenue	-	-	-
Bonds Payable-Revenue	-	2,975,000	-
Total Noncurrent Liabilities	190,121	3,236,491	7,025,700
Total Liabilities	524,048	3,774,181	7,133,485
Net Assets:			
Invested in Capital Assets, net of related debt	13,957,228	6,925,205	11,703,725
Restricted for Debt Service	-	507,500	-
Restricted for Capital Replacement	-	-	-
Unrestricted	1,670,279	1,411,102	1,206,061
Total Net Assets	$ 15,627,507	$ 8,843,807	$ 12,909,786

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Net assets of business-type activities

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets - Proprietary Funds (cont)

Enterprise Funds (cont)			Internal
Water	Water Reclamation	Total	Service Funds
$ 6,635,252	$ 3,508,012	$ 15,275,766	$ 14,097,753
77,962	-	77,962	-
712,579	623,018	2,393,880	360,584
90,581	141,864	372,904	186,626
271,480	-	271,480	-
613,590	525,122	1,333,238	-
16,648	-	20,511	-
-	560	21,332	15,198
1,739,133	326,934	2,636,299	457,363
10,157,225	5,125,510	22,403,372	15,117,524
307,388	7,415,381	13,434,520	-
-	-	74,268	-
4,488,226	595,741	10,727,793	-
16,365,542	3,290,574	23,575,304	113,145
70,358	186,449	24,076,105	310,317
22,725,546	6,771,546	30,903,822	19,928,650
167,181,380	161,149,081	350,627,272	-
9,771,510	-	9,771,510	-
2,170,277	29,932,631	32,896,066	-
(55,167,749)	(68,384,107)	(145,524,709)	(13,261,794)
167,912,478	140,957,296	350,561,951	7,090,318
178,069,703	146,082,806	372,965,323	22,207,842
214,109	13,421	549,985	932
166,736	140,013	426,475	67,417
-	-	107,864	-
194,916	353,270	572,160	-
-	-	-	1,100,000
1,178	16,573	20,511	-
2,368,558	1,633,841	4,002,399	-
-	-	345,000	-
307,388	-	365,011	-
3,252,885	2,157,118	6,389,405	1,168,349
657,388	553,003	1,768,982	169,297
-	-	122,800	-
-	-	6,795,921	-
16,096,559	34,329,688	50,426,247	-
-	-	2,975,000	-
16,753,947	34,882,691	62,088,950	169,297
20,006,832	37,039,809	68,478,355	1,337,646
149,139,973	97,578,386	279,304,517	7,090,318
-	-	507,500	-
-	7,415,381	7,415,381	-
8,922,898	4,049,230	17,259,570	13,779,878
$ 158,062,871	$ 109,042,997	304,486,968	$ 20,870,196
		741,736	
		$ 305,228,704	

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds

	Enterprise Funds		
	Electric Light	Public Parking	Sanitary Landfill
Operating Revenues:			
Charges for Goods and Services	$ 4,768,879	$ -	$ 5,339,798
Fines and Forfeitures	1,750	-	160
Pledged as Security for Revenue Bonds and Notes:			
Charges for Goods and Services	-	1,872,204	-
Fines and Forfeitures	-	314,133	-
Total Operating Revenues	4,770,629	2,186,337	5,339,958
Operating Expenses:			
Personnel Services	447,327	868,690	1,413,025
Casualty Loss	-	-	-
Insurance	9,102	26,961	8,349
Professional Services	195,573	233,362	704,752
Rent	53,577	2,075	649,076
Repairs and Maintenance	226,807	291,025	151,408
Supplies and Materials	41,380	33,575	360,819
Utilities and Bulk Energy	3,088,655	93,235	55,345
Depreciation	863,198	646,633	1,008,677
Other Current Expenses	13,408	1,165	(292,857)
Total Operating Expenses	4,939,027	2,196,721	4,058,594
Operating Income (Loss)	(168,398)	(10,384)	1,281,364
Nonoperating Revenues (Expenses):			
Investment Revenue	44,427	91,238	320,251
Gain (Loss) on Capital Assets	10,142	79	4,942
Rent/Operating Leases	4,014	600	19,368
Cost Recovery	-	-	-
Contributions	-	-	-
Miscellaneous	(32,906)	2,508	(7,235)
Federal Grants	-	-	-
State Grants	-	-	35,244
Interest Expense and Fiscal Agent Charges	-	(203,597)	-
Total Nonoperating Revenues (Expenses)	25,677	(109,172)	372,570
Income (Loss) Before Contributions and Transfers	(142,721)	(119,556)	1,653,934
Capital Contributions	157,310	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Change in Net Assets	14,589	(119,556)	1,653,934
Total Net Assets - January 1	15,612,918	8,963,363	11,255,852
Total Net Assets - December 31	$ 15,627,507	$ 8,843,807	$ 12,909,786

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Change in Net Assets of Business-type Activities

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds (cont)

Enterprise Funds			Internal Service Funds
Water	Water Reclamation	Total	
$ -	$ -	$ 10,108,677	$ 19,008,206
-	-	1,910	-
15,905,373	8,837,777	26,615,354	-
4,780	-	318,913	-
15,910,153	8,837,777	37,044,854	19,008,206
4,030,082	3,441,454	10,200,578	1,532,987
-	-	-	8,859,198
72,095	296,534	413,041	1,104,658
1,212,797	526,844	2,873,328	39,899
149,703	212,010	1,066,441	991,413
942,995	390,449	2,002,684	121,533
1,539,828	268,595	2,244,197	914,349
1,094,623	753,346	5,085,204	12,319
5,259,193	4,751,342	12,529,043	1,376,633
316,469	109,289	147,474	159,564
14,617,785	10,749,863	36,561,990	15,112,553
1,292,368	(1,912,086)	482,864	3,895,653
271,521	444,759	1,172,196	538,664
68,865	(2,610)	81,418	139,470
57,963	18,808	100,753	-
164,304	972,210	1,136,514	-
-	-	-	7,511
(17,298)	(47,224)	(102,155)	11,060
175,041	-	175,041	
-	-	35,244	-
(755,382)	(689,837)	(1,648,816)	-
(34,986)	696,106	950,195	696,705
1,257,382	(1,215,980)	1,433,059	4,592,358
5,621,839	3,841,156	9,620,305	-
-	69,433	69,433	-
-	(512,194)	(512,194)	-
6,879,221	2,182,415	10,610,603	4,592,358
151,183,650	106,860,582		16,277,838
$ 158,062,871	$ 109,042,997		$ 20,870,196
		555,831	
		$ 11,166,434	

Statement of Cash Flows - Proprietary Funds

	Enterprise Funds	
	Electric Light	Public Parking
Cash Flows From Operating Activities:		
Receipts from Customers	$ 3,598,113	$ 1,811,469
Cash Receipts from Interfund Services Provided	1,189,083	67,383
Payments to Suppliers	(3,597,967)	(673,817)
Payment for Interfund Services Used	(34,534)	(4,212)
Payments to Employees	(428,726)	(815,141)
Claims Paid	-	-
Other Receipts	(29,903)	317,135
Net Cash Provided (Used) by Operating Activities	696,066	702,817
Cash Flows From Noncapital Financing Activities:		
Advance From Other Funds	-	(61,400)
Transfers In	-	-
Transfers Out	-	-
Net Cash Flows from Noncapital Financing Activities	-	(61,400)
Cash Flows From Capital and Related Financing Activities:		
Sale of Capital Assets	36,841	79
Purchase of Capital Assets	(1,212,295)	-
Interest Payments	-	(206,484)
Proceeds from Revenue Notes	-	-
Principal Payments-Revenue Notes	-	-
-Bonds	-	(330,000)
-Certificates of Participation	-	-
Net Cash Flows from Capital and Related Financing Activities	(1,175,454)	(536,405)
Cash Flows from Investing Activities:		
Payments Received on Notes Receivable	-	-
Sale and Maturity of Investments	-	-
Rent Received	4,014	600
Investment Revenue Received	44,556	81,268
Net Cash Flows from Investing Activities	48,570	81,868
Net Increase (Decrease) in Cash & Cash Equivalents During the Year	(430,818)	186,880
Cash and Cash Equivalents, January 1	1,482,972	2,077,171
Cash and Cash Equivalents, December 31	1,052,154	2,264,051
Less: Restricted Cash and Cash Equivalents	-	(507,500)
Cash And Cash Equivalents Per Balance Sheet	$ 1,052,154	$ 1,756,551
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities:		
Operating Income (Loss)	$ (168,398)	$ (10,384)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	863,198	646,633
Amortization	-	9,384
(Increase) Decrease in-Receivables	18,317	23,644
-Inventory	2,320	-
-Due From Other Funds	-	-
-Due From Other Governments	-	(1,196)
Increase (Decrease) in-Accounts Payable	(6,319)	(6,015)
-Accrued Wages	3,632	4,438
-Prepaid Revenue	-	(15,800)
-Compensated Absences	14,969	49,111
-Deposits	1,176	495
-Other Accrued Liabilities	-	-
-Due To Other Funds	77	-
Other Revenue Sources (Uses)	(32,906)	2,507
Net Cash Provided (Used) by Operating Activities	$ 696,066	$ 702,817
Noncash Investing, Capital and Financing Activities:		
Capital Contributions	$ 157,310	$ -
Transfer of Capital Assets to Governmental Funds	-	-
Change in Fair Value of Investments	-	-

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows - Proprietary Funds (cont)

Enterprise Funds (cont)				Internal
Sanitary Landfill	Water	Water Reclamation	Total	Service Funds
$ 4,935,553	$ 15,924,386	$ 8,795,621	$ 35,065,142	$ 3,681,711
62,859	258,444	31,108	1,608,877	15,300,827
(1,675,671)	(5,544,207)	(3,116,190)	(14,607,852)	(3,386,205)
(5,660)	(59,940)	(265,471)	(369,817)	(57,770)
(1,342,327)	(4,088,893)	(3,361,068)	(10,036,155)	(1,516,936)
-	-	-	-	(8,859,198)
(295,228)	327,274	911,392	1,230,670	11,060
1,679,526	6,817,064	2,995,392	12,890,865	5,173,489
-	-	-	(61,400)	-
-	-	69,433	69,433	-
-	-	(362,682)	(362,682)	-
-	-	(293,249)	(354,649)	-
4,942	68,865	263	110,990	157,533
(3,232,480)	(7,898,659)	(23,785,348)	(36,128,782)	(1,470,598)
-	(734,500)	(404,903)	(1,345,887)	-
-	2,205,785	21,738,914	23,944,699	-
-	(1,769,474)	(1,705,350)	(3,474,824)	-
-	-	-	(330,000)	-
-	(1,695,000)	-	(1,695,000)	-
(3,227,538)	(9,822,983)	(4,156,424)	(18,918,804)	(1,313,065)
-	-	2,436	2,436	-
-	44,370	-	44,370	-
19,368	57,963	18,808	100,753	-
304,594	275,761	414,466	1,120,645	445,724
323,962	378,094	435,710	1,268,204	445,724
(1,224,050)	(2,627,825)	(1,018,571)	(5,114,384)	4,306,148
8,752,098	9,570,465	11,941,964	33,824,670	9,791,605
7,528,048	6,942,640	10,923,393	28,710,286	14,097,753
(5,204,251)	(307,388)	(7,415,381)	(13,434,520)	-
$ 2,323,797	$ 6,635,252	$ 3,508,012	$ 15,275,766	$ 14,097,753
$ 1,281,364	$ 1,292,368	$ (1,912,086)	$ 482,864	$ 3,895,653
1,008,677	5,259,193	4,751,342	12,529,043	1,376,633
-	9,352	-	18,736	-
(335,932)	(107,681)	(10,488)	(412,140)	(29,129)
4,806	54,062	(54,622)	6,566	(8,442)
356	12,000	-	12,356	-
(5,810)	-	(560)	(7,566)	3,461
(49,245)	34,087	(769,972)	(797,464)	(91,798)
3,843	22,375	19,192	53,480	6,793
-	-	-	(15,800)	-
66,855	(81,186)	61,194	110,943	9,258
950	(731)	-	1,890	-
(324,351)	-	-	(324,351)	-
-	1,178	(13,596)	(12,341)	-
28,013	322,047	924,988	1,244,649	11,060
$ 1,679,526	$ 6,817,064	$ 2,995,392	$12,890,865	$ 5,173,489
$ -	$ 5,621,839	$ 3,841,156		
-	-	(149,512)		
-	5,769	-		

Statement of Fiduciary Net Assets - Fiduciary Funds

	Pension Trust Funds
Assets	
Cash and Cash Equivalents	$ 3,651,797
Receivables:	
Accounts	397,892
Interest	717,083
Total Receivables	1,114,975
Investments at Fair Value:	
US Government	47,024,643
Foreign Obligations	942,152
Domestic Stocks	64,635,591
Foreign Stocks	5,885,023
Index Funds:	
Equity	59,064,800
Government / Corporate Bonds	31,943,194
Mutual Funds:	
Foreign Equity	70,376,212
Domestic Equity	31,850,867
Real Estate	17,705,110
Total Investments	329,427,592
Total Assets	334,194,364
Liabilities	
Accounts Payable	18,539
Accrued Wages	6,221
Total Liabilities	24,760
Net Assets	
Held in Trust for Pension and Health Benefits	$ 334,169,604

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

	Pension Trust Funds
Additions	
Contributions	
Employer	$ 8,071,408
Plan Members	2,712,091
Total Contributions	10,783,499
Investment Income (Loss)	45,844,783
Less Investment Expense	619,575
Net Investment Income (Loss)	45,225,208
Total Additions	56,008,707
Deductions	
Benefit Payments	
Pension	12,418,313
Health Premiums	958,436
Total Benefit Payments	13,376,749
Refunds	322,423
Administrative Expense	215,451
Total Deductions	13,914,623
Net Increase (Decrease)	42,094,084
Net Assets - Beginning	292,075,520
Net Assets - Ending	$ 334,169,604

The notes to the financial statements are an integral part of this statement.

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

A. BASIS OF PRESENTATION

The financial statements of the City have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

B. REPORTING ENTITY

The City of Sioux Falls is a municipality chartered under the constitution of the State of South Dakota and is governed by a Council, including a full-time Mayor who is vested with the executive and administrative powers of the City, as well as eight part-time Council members who serve in a policy-making and legislative capacity.

The accompanying financial statements present the City and its component units. Blended component units are entities which are legally separate from the City but which are so intertwined with the City that they are, in substance, the same as the City. Discretely presented component units are entities for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Blended Component Unit. The Sioux Falls Building Authority was organized by the City of Sioux Falls in 1986 for the purpose of financing, owning, and leasing property to meet the needs of the City. The Authority is governed by a board comprised of the members of the City's governing council. The Authority is reported as part of the Water enterprise fund.

The Sioux Falls Regional Emergency Medical Services Authority was created by the City of Sioux Falls in 1996 to provide oversight and set/review quality of service provided by all EMS responders within Sioux Falls. The Authority is governed by a five member board appointed by the Mayor and comprised of community members. The Authority board functions as an advisory board related to the area of ambulance service in the community. Health Department employees provide support to the Authority board, which operates as an advisory board to the City Council. The Authority has no revenue, expenses, assets, or liabilities of it's own; therefore, no financial data is presented for the Authority within this report.

Discretely Presented Component Unit. The Housing and Redevelopment Commission of the City of Sioux Falls, South Dakota (Housing Commission), was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low-income public housing pursuant to the United States Housing Act of 1937 (42 United States Code Section 1431 et seq.). The Mayor appoints the five members of the governing board. However, the City has no further accountability for the Housing Commission. In 2006, the Community Development Special Revenue Fund provided $217,035 of federal grant proceeds to the Housing Commission for housing assistance. The Housing Commission's fiscal year end presented in this report is September 30, 2006. Complete financial statements are available at the administrative offices located at 630 South Minnesota Avenue in Sioux Falls, South Dakota.

C. BASIC FINANCIAL STATEMENTS (GASB 34)

The basic financial statements are prepared in conformity with GASB Statement No. 34 and presented on both the government-wide and fund financial level. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of activities or changes in net assets, report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund and internal service fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise funds and governmental and internal service funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

Notes to Financial Statements

given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

D. FINANCIAL STATEMENT PRESENTATION

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added the Entertainment Tax Fund as it has outstanding debt and the Community Development Fund due to significant federal grant funding. Both funds also have a specific community focus. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining statements section.

The government reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue sources include property and sales taxes, licenses and permits, state and county shared revenues, and charges for goods and services. In addition to general government, primary expenditures include public safety, highways and streets, health, library, and parks and recreation.

The **Entertainment Tax Fund** accounts for the collection of a 1 percent tax on lodging, prepared meals, and certain other "entertainment" items. This tax is used to retire the 1993 sales/use tax revenue bonds and subsequent refunding issues and to provide operating funds for the Convention Center and Washington Pavilion of Arts and Science.

The **Sales and Use Tax Fund** accounts for capital improvement projects and debt service funded by the second cent (.92) of City sales tax.

The **Community Development Fund** accounts for all activities financed by the Community Development Block Grant funds and similar Federal grant and loan programs.

The **Storm Drainage Fund** accounts for the activities financed by drainage and storm sewer fees as well as expenditures of state revolving loans used to make capital improvements to the storm drainage system.

Other governmental (non-major) funds is a compilation of all of the non-major governmental funds. These include additional special revenue, capital projects, and permanent funds.

The government reports the following major proprietary funds:

The **Electric Light Fund** accounts for the activities of the government's electric distribution operations.

The **Public Parking Facilities Fund** accounts for the activities of the government's parking system which provides on- and off-street parking in the downtown area.

The **Sanitary Landfill Fund** accounts for the activities of the government's landfill operations.

The **Water Fund** accounts for the activities of the government's water distribution system.

The **Water Reclamation Fund** accounts for the activities of the government's wastewater collection and treatment system.

Additionally, the government reports the following fund types:

The **permanent funds** account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

The **internal service funds** account for health, workers' compensation, liability insurance, technology equipment and fleet management services provided to other departments of the government, or to other governments, on a cost reimbursement basis.

The **pension trust funds** account for the activities of the City Employee's Retirement System and the City Firefighters' Pension Fund, which accumulates resources for pension benefit payments to qualified City employees.

Notes to Financial Statements

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. This focus concentrates on the fund's net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus concentrates on the fund's resources available for spending currently or in the near future. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for certain debt service, compensated absences and claim and judgment expenditures.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then, unrestricted resources as they are needed.

F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents—

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

A pooled cash account is maintained for all City funds except for Community Development. Those funds that have an average negative balance in the cash account are charged interest at the rate earned by the pool. Interest earnings are allocated to those funds that have an average positive balance in the cash account.

Investments—

Investments are stated at fair value based on quoted market prices. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Receivables and Payables—

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current interfund loans) or "advances to/from other funds" (i.e., non-current interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible accounts. This allowance is equal to estimated losses that may be incurred in collection of outstanding receivables.

Restricted Assets—

Assets whose use is restricted for construction, debt service, or the payment of specific claims and benefits have been classified as restricted assets as their use is limited by bond covenants or other externally imposed requirements.

Notes to Financial Statements

Inventories and Prepaid Items—

Inventories for both governmental and business-type funds are stated using the weighted average method. The cost of inventory is recognized as an expense in both the fund and the government-wide financial statements when used (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets—

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $7,500, and estimated useful life in excess of one year. Additions or improvements that significantly add value to an asset such as extending the useful life of an asset or increasing its capacity or efficiency are capitalized. Other costs for repairs and maintenance are expensed as incurred. The cost of equipment in excess of $5,000 is inventoried for purposes of federal grant reporting.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City chose to include all general infrastructure assets (those reported in the governmental activities), regardless of acquisition date or amount, using backtrending analysis to estimate historical costs.

Capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Primary Government:	
Buildings:	
Structures	40 years
Remodeling and renovation	15 years
Improvements other than buildings:	
Park improvements	10 - 30 years
Other	5 - 25 years
Machinery and equipment:	
Furniture and fixtures	10 - 20 years
Office equipment	5 - 10 years
Computer equipment	2 - 5 years
Library books	10 years
Vehicles	4 - 10 years
Heavy equipment	10 - 20 years
Utility system equipment	20 - 40 years
Other	5 - 20 years
Infrastructure:	
Streets	15 - 40 years
Traffic signals	15 years
Street and parking area lighting	15 years
Light distribution lines	40 years
Water distribution mains	50 years
Water reclamation lines	25 years
Storm drainage pipe	25 years
Other	20 - 50 years
Component Units:	
Housing Commission:	
Buildings	25 - 40 years
Modernization improvements	15 years
Equipment	5 years
Furnishings	5 years

Net Assets/Fund Balance

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance that are not available to be appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Long-term Obligations—

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Notes to Financial Statements

G. REVENUES AND EXPENDITURES/EXPENSES

Compensated Absences—

It is the City's policy to permit employees to accumulate earned but unused vacation, comp time, and sick pay benefits. The accumulation of unused vacation and comp time is limited based upon employee classification. Upon separation, the City will reimburse the employee for accumulated vacation and comp time not to exceed established maximums. The amount of unused sick leave accumulation is not limited. Upon retirement, or upon separation in good standing for employees not represented by a bargaining unit, the City reimburses eligible employees a portion of unused sick leave. All compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Vacation, comp time, and sick leave accruals are recognized as a long-term liability which will generally be liquidated from the General Fund. Thus, the governmental fund financial statements accrue vacation and comp time benefits only to the extent that they have matured due to retirement or separation from the City.

Grant Revenue—

The City recognizes grant revenues when all applicable eligibility requirements, including time requirements, are met. The City follows the policy that if expenditures of funds are the prime factor for determining eligibility for the grant funds, revenue is recognized at the time of the expenditure.

Retirement and Other Post-Employment Benefits—

The City has two separate retirement plans covering substantially all full-time and regular part-time employees. It is the City's policy to fund the normal costs and amortization of the unfunded prior service costs and to account for such costs on the accrual basis (See Note 10).

Self-Insurance—

The City is self-insured for workers' compensation, unemployment compensation, property casualty losses (deductible portion only), and health-life benefits (up to $250,000 per individual). Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can reasonably be estimated.

Deferred Revenue—

As sources of revenue become measurable, even though not currently available, they are generally recorded as a receivable and a deferred revenue in governmental funds. When the sources of revenue become available for use, they are recognized as revenue.

H. ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2—Stewardship, Compliance, and Accountability

A. Compliance with Finance-Related Legal and Contractual Provisions

The City incurred no material violations of finance-related legal and contractual provisions.

B. Excess of Expenditures Over Appropriations at the Legal Level of Control

The City incurred no material excess of expenditures over appropriations at the legal level of control.

C. Net Assets/Fund Balance Deficits

The City had one fund with a negative fund balance in the amount of $397,017. The non-major Tax Increment Financing Special Revenue Fund received a loan from the Sales and Use Tax Fund for the incurrence of costs that will be reimbursed by tax increments once projects are completed and incremental tax revenues are received. As such the fund has a liability as an advance due to other funds without a corresponding asset.

Note 3—Detailed Notes On All Funds

A. Deposits and Investments

The City maintains a pooled cash portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle fund monies while ensuring that the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council. The pool consists of checking accounts, savings accounts, certificates of deposit, and securities guaranteed either directly or indirectly by the United States Government, including money market accounts, which are stated at market value. Fund equity in the pool is shown as cash and cash equivalents in all financial statements.

Governmental and Business-Type Funds

Investment Policy: The City has an adopted investment policy, conforming to all applicable laws of the State of South Dakota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash portfolio. This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide for proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is safety of principal. Investment decisions are made

Notes to Financial Statements

under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

There are certain deposits and investments that are held in trust for debt service or for specific purposes outside of the pooled cash portfolio and the adopted investment policy. These assets are governed by state law (SDCL 4-5-6) which sets forth eligible deposits and investments for the City. The same deposits and investments are allowed under both the City's investment policy and state law.

Allowable deposits and investments include:

a. Securities issued by the United States Treasury
b. Securities issued by government-sponsored enterprises (GSE's) or federally related institutions that are guaranteed directly or indirectly by the U.S. government (U.S. Agencies).
c. Mutual and money market funds that invest in (a) or (b)
d. Repurchase agreements fully collateralized by (a) or (b)
e. Certificates of Deposits (100% collateralized)
f. Deposit and Savings Accounts (100% collateralized)

Credit Risk. The credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's pooled cash investment policy allows for the investment in individual securities with maturities of five years or less from the date of purchase, and mutual and money market funds holding securities with maturities of five years or less. Outside of the pooled cash portfolio, the City does have a very small number of Governmental National Mortgage Association pooled securities with maturities in excess of 5 years. The chart below summarizes the credit quality of the City's investment holdings.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City deposits in excess of depository insurance must be 100 percent collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A. Collateral is required to be segregated by each depository as approved by the South Dakota Public Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve. As of December 31, 2006, the deposits of the City were $65.7 million. No depository fell below the 100 percent of pledged collateral required as of December 31, 2006. Other investments are held for safekeeping in the City's name by Treasury Direct or by a qualified bank or trustee pursuant to SDCL 4-5-9.

Concentration of credit risk. Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's pooled cash investment policy limits the City pooled cash portfolio to hold no more than 20 percent of the total pool investments in the deposit of a single financial institution and the exposure to federal agency securities, secured directly or indirectly, to no more than 40 percent of the total portfolio. No institution exceeded these established limits as of December 31, 2006.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The below chart summarizes the City's deposits and investments using segmented time distribution.

Deposit/Investment Type	Credit Rating	Fair Value	Less Than 1 Year	1-3 Years	3-5 Years	5 or more Years
(a) U.S. Treasury Securities	TSY	$ 14,763,438	$ 2,967,188	$ 11,796,250	$ -	$ -
(b) U. S. Agency Securities	AAA*	30,640,323	11,652,239	6,851,195	12,072,520	64,369
(c) Money Market Funds	N/A	330,391	330,391	-	-	-
(d) Repurchase Agreements	TSY**	1,099,500	-	1,099,500	-	-
(e) Certificates of Deposit	N/A	47,000,000	47,000,000	-	-	-
(f) Cash	N/A	18,007,900	18,007,900	-	-	-
Total		$ 111,841,552	$ 79,957,718	$ 19,746,945	$ 12,072,520	$ 64,369

* All agency securities are either Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), or Federal Home Loan Bank System.
** The underlying securities are U.S. Treasury Notes

Component Unit

The Housing and Redevelopment Commission falls under South Dakota statutes (SDCL) 11-7-31, with supplementary authority granted under SDCL 4-5-6, in regards to permitted deposits and investments. The Commission has no further investment policy as to interest, credit, or concentration risk.

As of September, 30, 2006, the deposits of the Authority were fully insured or collateralized as required by SDCL 4-6A. All deposits as of September 30, 2006, are in certificates of deposit.

Notes to Financial Statements

Fiduciary Funds

Investment Policy:

The pension trust funds are governed by the prudent person rule, that is, the Board of Trustees should use the same degree of skill, care, prudence and diligence, under the circumstances then prevailing, of a prudent person, familiar with such matters and acting in a similar capacity as set forth by state law (SDCL 9-16-5.10 and City Ordinance Section 35). Under this standard, the Board of Trustees has an established investment policy which outlines the distinction of responsibilities, prohibitions, diversification, and performance measurement standards.

The policy prohibits the use of any securities whose effect would be to leverage the portfolio or whose expected returns are significantly unlike those expected from their appropriate asset classes.

Deposits and Investments as of December 31, 2006, consisted of the following:

Fiduciary Fund Investments	Fair Value
Cash Deposits	$ 736,184
Money Market Fund	2,915,613
U.S. Treasury & Agency Obligations	47,966,795
Domestic Fixed Income - Index Funds	31,943,194
Domestic Stock - Separate Management	64,635,591
Domestic Stocks - Index Funds:	59,064,800
Domestic Stocks - Mutual Funds	31,850,867
International Stocks - Separate Management	5,885,023
International Stocks - Mutual Funds	70,376,212
Real Estate - Mutual Funds	17,705,110
Total Fiduciary Fund Deposits and Investments	$ 333,079,389

Custodial Credit Risk. The cash deposits of the fiduciary funds are held by the City within the general deposit cash account and subject to the same requirements as discussed for the governmental and business-type funds.

Credit Risk: In addition to a diversified index fund, the City uses one separately managed account for the management of fixed income securities. The investment policy requires that all individual securities separately managed must be rated "A" or better at the time of purchase. As of December 31, 2006, the separately managed portfolio consisted of the following securities:

Name	Rating	Amount	Effective Duration
U.S. Treasuries	TSY	$ 47,024,643	11.1 yrs.
U.S. Agency for International Development	TSY	942,152	7.0 yrs.
Total		$ 47,966,795	

The City's money market account for temporary cash held within the fiduciary funds has an average maturity of 33 days. There are no restrictions on the type of investments within the money market account; however, the account is AAA rated.

Concentration Risk: The City's investment policy prohibits the separately managed fixed income account to holding no more than five percent of the portfolio's market value in the securities of a single issuer or related issuer with the exception of U.S. guaranteed debt. There are no further concentration restrictions.

Foreign Currency Risk: Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of an investment. The City prohibits the use of individual bonds which do not pay in U.S. dollars within the separately managed fixed income account.

B. Property Tax

Real property tax levies are established on or before October 1 of each year. Taxes are recorded as receivable, levied, and attached as an enforceable lien on property as of January 1 of each year. Taxes are payable in two installments on or before April 30 and October 31 of that year. The County bills and collects the City taxes and remits them to the City. The City accrues all delinquent property tax revenues received within 30 days after December 31. No accrual for the property tax levy becoming due in January of 2007 is included in the accompanying financial statements, since such taxes are collected to finance expenditures budgeted for the subsequent period.

The City is permitted by State statute to levy an increase of no more than the lesser of three percent or the index factor, as defined in the statutes, over the amount of revenue receivable from real property taxes in the preceding year, excluding the amount levied pursuant to an affirmative two-thirds vote of the governing body. After applying the index factor, the City may increase the revenue from real property taxes above the limitations by the percentage increase of value resulting from any improvements or change in use of real property, annexation, minor boundary changes, and any adjustments in taxation of property separately classified and subject to statutory adjustments and reductions, only if assessed the same as property of equal value. Property tax revenue may also be increased for the scheduled payment increases on bonded indebtedness incurred prior to December 31, 1996, and for a levy directed by the order of a court for the purpose of paying a judgment against the City.

The combined tax rate to finance municipal services for the year ended December 31, 2006, was $4.43 per $1,000 of taxable valuation.

Notes to Financial Statements

C. Receivables

Receivables for the City's individual major funds and aggregate nonmajor, internal service, and fiduciary and component units in aggregate, including the applicable allowances for uncollectible accounts, are as follows at December 31, 2006:

Primary Government	Taxes	Accounts	Interest & Penalty	Special Assessments	Notes Receivable	Loans Receivable	Unbilled	Allowance for Uncollectibles	Total
Governmental Activities									
General	$ 729,715	$ 1,800,998	$ 680,465	$ -	$ -	$ -	$ -	$ (486,161)	$ 2,725,017
Entertainment Tax	-	118,699	56,590	-	-	-	-	-	175,289
Sales/Use Tax	-	-	17,657	1,421,861	1,293,483	-	-	-	2,733,001
Community Development	-	-	13,766	-	425,211	16,502,812	-	(141,927)	16,799,862
Storm Drainage	-	38,816	38,513	-	-	-	-	-	77,329
Nonmajor Funds	-	2,347	36,551	-	-	-	-	(47)	38,851
Internal Service Funds	-	360,584	186,626	-	-	-	-	-	547,210
Total Governmental Activities	729,715	2,321,444	1,030,168	1,421,861	1,718,694	16,502,812	-	(628,135)	23,096,559
Business-type Activities									
Electric Light	-	394,234	13,677	-	-	-	194,526	(25,758)	576,679
Public Parking Facilities	-	1,196	29,372	-	-	-	-	(968)	29,600
Sanitary Landfill	-	704,334	97,410	-	-	-	-	(14,755)	786,989
Water	-	745,239	90,581	271,480	-	-	613,590	(32,660)	1,688,230
Water Reclamation	-	678,703	141,864	-	-	-	525,122	(55,685)	1,290,004
Total Business-type Activities	-	2,523,706	372,904	271,480	-	-	1,333,238	(129,826)	4,371,502
Fiduciary Funds									
Employee's Retirement	-	290,453	525,700	-	-	-	-	-	816,153
Firefighters' Pension	-	107,439	191,383	-	-	-	-	-	298,822
Total Fiduciary Funds	-	397,892	717,083	-	-	-	-	-	1,114,975
Total Primary Government	$ 729,715	$ 5,243,042	$ 2,120,155	$ 1,693,341	$ 1,718,694	$ 16,502,812	$ 1,333,238	$ (757,961)	$ 28,583,036
Non current portion	$ -	$ -	$ -	$ 1,574,988	$ -	$ 16,299,004	$ -	$ -	$ 17,873,992
Component Unit									
Housing Commission	$ -	$ 71,114	$ 11,613	$ -	$ 239,817	$ -	$ -	$ -	$ 322,544

Notes to Financial Statements

D. Due from other Governments

Amounts Due from Other Governments include the following at December 31, 2006:

	Due from			
	Federal	State	Local	Total
Primary Government:				
Governmental Activities				
General Fund	$ 8,110	$ 2,100,804	$ 56,161	$ 2,165,075
Entertainment Tax	-	165,999	-	165,999
Sales/Use Tax	70,400	1,443,075	-	1,513,475
Railroad Relocation	-	75,214	-	75,214
Transit	-	1,064	10,025	11,089
Storm Sewer	7,155	16,298	-	23,453
Total Governmental Activities	85,665	3,802,454	66,186	3,954,305
Business-type Activities				
Enterprise Funds				
Public Parking Facilities	1,509	3,355	-	4,864
Landfill	1,303	411	14,194	15,908
Water Reclamation	-	-	560	560
Total Enterprise Funds	2,812	3,766	14,754	21,332
Internal Service Funds				
Fleet Revolving	-	-	15,198	15,198
Total Internal Service Funds	-	-	15,198	15,198
Total Primary Government	$ 88,477	$ 3,806,220	$ 96,138	$ 3,990,835
Component Unit				
Housing Commission	$ 119,306	$ -	$ -	$ 119,306

E. Interfund Receivables and Payables

Interfund receivables and payables result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The composition of individual interfund receivable and payable balances at December 31, 2006, was as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Storm Drainage	$ 5,809
Sales/Use Tax	Storm Drainage	1,500
Landfill	Water	1,178
	Water Reclamation	2,685
		3,863
Water	Electric Light	2,760
	Water Reclamation	13,888
		16,648
		$ 27,820

Advance to/from other funds:

Receivable fund	Payable fund	Amount
Sales/Use Tax	Public Parking Facilities	$ 122,800
	T.I.F. District	400,000
		$ 522,800

Notes to Financial Statements

F. Interfund Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The financial statements reflect interfund transfers as follows:

	Transfer in:						
	General Fund	Sales and Use Tax	Community Development	Nonmajor Governmental Funds	Water Reclamation	General Capital Assets	Total
Transfer out:							
General Fund	$ -	$ -	$ 254,500	$ 2,350,000	$ -	$ -	$ 2,604,500
Entertainment Tax	87,575	-	-	-	-	-	87,575
Sales/Use Tax	-	-	-	-	69,433	-	69,433
Community Development	343,202	-	-	-	-	-	343,202
Water Reclamatioon	-	362,682	-	-	-	149,512	512,194
	$ 430,777	$ 362,682	$ 254,500	$ 2,350,000	$ 69,433	$ 149,512	$ 3,616,904

Notes to Financial Statements

G. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Primary Government:	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental Activities:				
Non-Depreciable Assets:				
Land	$ 106,924,260	$ 5,261,750	$ -	$ 112,186,010
Intangibles (Rights)	879,669	71,545	-	951,214
Construction in Progress	15,672,693	89,581,001	(90,370,893)	14,882,801
Depreciable Assets:				
Buildings	134,536,349	3,786,476	(43,067)	138,279,758
Improvements other than Buildings	97,045,812	4,944,224	(1,706,386)	100,283,650
Equipment	58,124,563	5,050,615	(4,082,405)	59,092,773
Infrastructure	418,967,257	80,360,043	(3,336,851)	495,990,449
Totals at Historical Cost	832,150,603	189,055,654	(99,539,602)	921,666,655
Accumulated Depreciation				
Buildings	(43,931,118)	(5,379,395)	24,907	(49,285,606)
Improvements other than Buildings	(52,258,857)	(2,599,681)	1,252,347	(53,606,191)
Equipment	(34,925,927)	(4,838,816)	3,314,341	(36,450,402)
Infrastructure	(167,730,393)	(10,392,857)	3,158,174	(174,965,076)
Total Accumulated Depreciation	(298,846,295)	(23,210,749)	7,749,769	(314,307,275)
Governmental Activities Capital Assets, net	$ 533,304,308	$ 165,844,905	$ (91,789,833)	$ 607,359,380
Business-type Activities:				
Non-Depreciable Assets:				
Land	$ 10,512,139	$ 215,654	$ -	$ 10,727,793
Intangibles (Rights)	5,806,088	3,965,422	-	9,771,510
Construction in Progress	12,331,504	45,566,741	(25,002,179)	32,896,066
Depreciable Assets:				
Buildings	23,191,241	384,063	-	23,575,304
Improvements other than Buildings	21,557,970	2,518,135	-	24,076,105
Equipment	30,609,366	1,860,854	(1,566,398)	30,903,822
Infrastructure	334,120,460	16,662,518	(155,706)	350,627,272
Totals at Historical Cost	438,128,768	71,173,387	(26,724,283)	482,577,872
Accumulated Depreciation				
Buildings	(5,519,488)	(696,383)	-	(6,215,871)
Improvements other than Buildings	(10,464,707)	(1,537,067)	-	(12,001,774)
Equipment	(15,591,545)	(1,504,469)	991,880	(16,104,134)
Infrastructure	(102,540,816)	(8,791,121)	129,007	(111,202,930)
Total Accumulated Depreciation	(134,116,556)	(12,529,040)	1,120,887	(145,524,709)
Business-type Activities Capital Assets, net	$ 304,012,212	$ 58,644,347	$ (25,603,396)	$ 337,053,163
Total Primary Government Capital Assets, net	$ 837,316,520	$ 224,489,252	$ (117,393,229)	$ 944,412,543

Notes to Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	**Amount**
General Government	$ 1,458,087
Public Safety	1,574,016
Highways & Streets	10,550,495
Health	74,313
Culture & Recreation	7,364,606
Urban & Economic Development	812,599
Capital Assets Held By The Government's Internal Service Funds	1,376,633
Total Depreciation Expense - Governmental Activities	$ 23,210,749
Business-type Activities:	
Electric Light	$ 863,198
Public Parking Facilities	646,633
Sanitary Landfill	1,008,677
Water	5,259,193
Water Reclamation	4,751,342
Total Depreciation Expense - Business type Activities	$ 12,529,043

Component Unit	**Beginning Balance**	**Additions**	**Retirements**	**Ending Balance**
Housing Commission				
Non-Depreciable Assets:				
Land	$ 504,280	$ -	$ -	$ 504,280
Depreciable Assets:				
Buildings	3,667,556	-	-	3,667,556
Equipment	777,176	18,425	-	795,601
Infrastructure	39,467	-	-	39,467
Totals at Historical Cost	4,986,945	18,425	-	5,006,904
Less Accumulated Depreciation:				
Buildings	(1,771,148)	(128,317)	-	(1,899,465)
Equipment	(512,839)	(28,225)	-	(541,064)
Infrastructure	(8,176)	(2,276)	-	(10,452)
Total Accumulated Depreciation	(2,126,506)	(158,818)	-	(2,450,981)
Total Component Unit Capital Assets, net	$ 2,860,439	$ (140,393)	$ -	$ 2,555,923

Notes to Financial Statements

Projects included in construction in progress for the primary government along with construction improvement commitments to be financed from encumbrances and unreserved fund balances carried forward into future years are as follows:

Project	Project Authorization	Expended to 12/31/2006	Committed
Orpheum Theatre Renovation	$ 1,206,781	$ 1,026,577	$ 180,204
Arena HVAC Modifications	149,350	13,660	135,690
Carnegie Fire Protection System	60,771	326	60,445
City Hall Fire Protection System	300,760	27,544	273,216
Renovation of City Buildings	6,001	5,282	719
Evidence and Record Storage Building	152,331	-	152,331
Engineering Infrastructure Projects	5,510,229	2,957,770	2,552,459
Railroad Relocation	1,924,786	-	1,924,786
Fire Station #10	37,953	-	37,953
Restore Fire Hose Tower	11,900	11,900	-
Fire Station #5	2,175	2,175	-
Fire Rescue Equipment	219,330	219,330	-
Warning Siren Poles	2,396	2,396	-
City/County Health and Human Services Building	6,543,053	3,305,066	3,237,987
Downtown Historical Revival	319,730	-	319,730
Land Acquisition-Planning	5,777	-	5,777
Sculpture Walk	15,750	-	15,750
Central Library Replacement	205,248	57,397	147,851
Light Projects	1,593,709	34,053	1,559,656
Arboretum Park	19,700	19,700	-
Bike Trail Construction/Reconstruction	105,350	21,478	83,872
Dugan Park	2,957	-	2,957
East Park/School Site Development	315,000	-	315,000
Elmwood Park	24,800	18,600	6,200
Falls Park	121,824	11,960	109,864
Fawick Park	4,600	4,600	-
Great Bear Improvements	15,000	2,926	12,074
Great Plains Zoo Asian Cat Building	492,345	-	492,345
Great Plains Zoo Bird Aviary	129,719	-	129,719
Great Plains Zoo Primate Exhibit	705,143	-	705,143
Great Plains Zoo Waterfowl Exhibit	166,455	-	166,455
Great Plains Zoo Master Plan	250,000	13,492	236,508
Green Hills Park Development	52,080	3,250	48,830
Harmodon Park	494,220	1,611	492,609
Jefferson Park	6,280	6,280	-
Legacy Park	10,250	10,250	-
Park Roads and Parking Lot Improvements	381,881	249,724	132,157
Prairie Meadows Park	15,450	-	15,450
McKennan Park	41,301	17,631	23,670
Memorial Park	7,358	7,358	-
Oak View Park	5,150	2,750	2,400
Pioneer Park Spray Pool	476,806	416,938	59,868
Platinum Valley Park	41,913	22,552	19,361
Riverfront Greenway Improvements	59,900	-	59,900
Sherman Park	902,202	838,021	64,181
Thelin Park	8,960	3,500	5,460
Veterans Memorial Park	853,896	766,150	87,746
Yankton Trail Park	178,451	-	178,451
Landfill Land Acquisition	186,798	-	186,798
Landfill Wetland Mitigation	165,057	165,057	-
Landfill Expansion	153,000	2,920	150,080
Landfill Compost Pad	233,692	-	233,692
Landfill Closure	280,442	-	280,442
Landfill Leachate Pilot Project	1,015,318	591,128	424,190
Convention Center Security System	9,793	-	9,793
Transit GPS	872	872	-
Washington Pavilion Artist Studio Elevator	90,000	28,210	61,790
Washington Pavilion Long Range Exhibit Planning	48,970	48,970	-
Storm Sewer Projects	10,680,067	4,716,604	5,963,463
Storm Drainage Land Acquisition	19,950	19,950	-
Water Projects	6,950,561	2,170,277	4,780,284
Water Reclamation Projects	50,213,751	29,932,631	20,281,120
	$ 94,205,292	$ 47,778,867	$ 46,426,425

Notes to Financial Statements

H. Long-Term Liabilities

Changes in Long-Term Liabilities

The following is a summary of changes in long-term debt, including the current portion, of the City of Sioux Falls for the year ended December 31, 2006.

	Balance Beginning	Additions	Deletions	Balance Ending	Due Within One Year
Primary Government					
Governmental Activities:					
Bonds Payable:					
Revenue	$ 41,615,000	$ -	$ 12,365,000	$ 29,250,000	$ 3,310,000
Obligations Under Capital Leases	930,314	-	110,085	820,229	-
Notes Payable	9,823,632	24,412,814	119,188	34,117,258	88,299
Total Debt	52,368,946	24,412,814	12,594,273	64,187,487	3,398,299
Accrued Compensated Absences					
Governmental Funds	8,425,537	5,044,381	4,945,346	8,524,572	4,950,000
Internal Service Funds	160,040	110,119	100,862	169,297	100,000
Total Governmental Activities	60,954,523	29,567,315	17,640,482	72,881,356	8,448,299
Business-type Activities:					
Bonds Payable:					
Revenue	3,650,000	-	330,000	3,320,000	345,000
Certificates of Participation	1,695,000	-	1,695,000	-	-
Revenue Notes Payable	33,958,769	23,944,701	3,474,824	54,428,646	4,002,399
Total Debt	39,303,769	23,944,701	5,499,824	57,748,646	4,347,399
Accrued Compensated Absences	1,658,038	779,587	668,643	1,768,982	670,000
Total Business-type Activities	40,961,807	24,724,288	6,168,467	59,517,628	5,017,399
Total Primary Government	$ 101,916,330	$ 54,291,603	$ 23,808,949	$ 132,398,984	$ 13,465,698
Component Unit					
Housing Commission					
Revenue Notes Payable	$ 702,423	$ -	$ 26,954	$ 675,469	$ 28,493
Accrued Sick Leave	50,486	43,258	30,292	63,452	30,049
Total Component Unit	$ 752,909	$ 43,258	$ 57,246	$ 738,921	$ 58,542

Notes to Financial Statements

Individual Debt Issues by Fund

The following is a summary of the individual debt issues, listed by fund, of the City of Sioux Falls for the year ended December 31, 2006.

		Purpose	Outstanding Interest Rate	Maturity Date	Authorized Not Issued Amount	Issue Amount	Amount Outstanding	Maximum Annual Debt Service
PRIMARY GOVERNMENT								
Governmental Activities								
Revenue Bonds & Notes								
Sales & Use Tax Fund								
Series 2001A Sales Tax	*	Public Safety Construction	4.25-5.50%	2010	$ -	$ 10,995,000	$ 6,815,000	$ 2,427,650
State Revolving Note #20		Storm Drainage Construction	1.50%	2017	667,827	25,281,522	25,281,522	n/a
State Revolving Note #22	*	Storm Drainage Construction	2.50%	2017	2,588,865	7,961,135	7,961,135	n/a
Total Sales & Use Tax					3,256,692		40,057,657	2,427,650
Entertainment Tax Fund								
Series 2001B Ent/Sales Tax	*	Partial Refunding (1993)	3.80-5.50%	2014	-	17,320,000	17,035,000	3,872,138
Series 2004 Ent/Sales Tax	*	Partial Refunding (1993)	3.00%	2008	-	8,135,000	5,400,000	2,909,750
Total Entertainment Tax					-		22,435,000	6,781,888
Storm Drainage								
State Revolving Note #17		System Construction	3.50%	2015	-	561,320	468,362	66,608
State Revolving Note #19		System Construction	2.50%	2016	-	415,785	406,239	47,079
Total Storm Drainage					-		874,601	113,687
Total Revenue Bonds & Notes					3,256,692		63,367,258	9,323,225
Other Long-Term Liabilities								
Obligations Under Capital Lease		Health Dept. Building	8.49%	2014	-	1,290,902	765,980	123,467
Obligations Under Capital Lease		Land at Falls Park	5.00%	2007	-	155,000	54,250	56,962
Total Debt					3,256,692		64,187,488	9,503,654
Vested Compensated Absences		Accrued Vacation & Sick Leave			n/a		8,693,869	n/a
Total Governmental Activities					$ 3,256,692		$ 72,881,357	$ 9,503,654
Business-type Activities								
Revenue Bonds & Notes								
Public Parking								
Series 2000 Parking System		Parking Construction	4.90-5.60%	2014	$ -	5,075,000	$ 3,320,000	$ 526,007
Water								
State Revolving Note #1		System Construction	4.50%	2010	-	6,496,745	2,789,145	812,458
State Revolving Note #2		System Construction	4.50%	2013	-	2,348,168	1,587,981	292,896
State Revolving Note #3		System Construction	3.50%	2014	-	7,930,000	6,166,321	938,374
State Revolving Note #4		System Construction	3.50%	2015	-	279,599	237,130	33,217
State Revolving Note #5		System Construction	2.50%	2016	4,909,786	7,839,214	7,684,540	793,805
Total Water					4,909,786		18,465,117	2,870,750
Water Reclamation								
State Revolving Note #1	*	System Construction	3.00%	2012	-	2,836,963	969,478	188,802
State Revolving Note #11		System Construction	4.50%	2007	-	1,195,346	12,361	148,892
State Revolving Note #12		System Construction	4.50%	2007	-	1,300,000	67,232	163,179
State Revolving Note #13		System Construction	4.50%	2008	-	2,083,137	422,457	291,778
State Revolving Note #14		System Construction	4.50%	2012	-	4,431,766	2,958,591	608,240
State Revolving Note #15		System Construction	3.50%	2014	-	1,467,706	1,191,725	174,162
State Revolving Note #16		System Construction	3.50%	2015	157,044	2,322,456	2,107,326	299,692
State Revolving Note #18		System Construction	2.50%	2016	709,740	3,241,260	3,198,136	374,305
State Revolving Note #21		System Construction	2.25%	n/a	15,025,516	22,351,902	22,351,903	n/a
State Revolving Note #23	*	System Construction	2.50%	n/a	7,638,681	2,684,319	2,684,320	n/a
Total Water Reclamation					23,530,981		35,963,529	2,249,050
Total Debt					28,440,767		57,748,646	5,645,807
Vested Compensated Absences		Accrued Vacation & Sick Leave			n/a		1,768,982	n/a
Total Business-type Activities					$ 28,440,767		$ 59,517,628	$ 5,645,807
	*	Secured by pledge of the second (.92%) penny sales and use tax.						
COMPONENT UNIT								
Housing Commission								
SDHDA Note		Affordable Housing	0.00%	2025		695,690	$ 626,047	$ 40,224
Bank Note		Affordable Housing	6.50%	2008		221,500	49,422	25,200
Vested Compensated Absences							63,452	n/a
Total Housing Commission							$ 738,921	$ 65,424

Notes to Financial Statements

Revenue Bonds Payable

Bonds payable at December 31, 2006, consist of one issue backed and serviced solely by the second penny (.92) sales tax (Sales and Use Tax Fund) and two issues backed and serviced by the entertainment tax (Entertainment Tax Fund) and secondarily by the second penny sales tax (Sales and Use Tax Fund) and one issue backed and serviced by the revenues of the public parking system (Public Parking Enterprise Fund) as shown above.

Debt service requirements for these revenue bonds at December 31, 2006, are as follows:

Entertainment Tax			
Year	Principal	Interest	Total
2007	$ 2,600,000	$ 1,028,453	$ 3,628,453
2008	2,850,000	950,177	3,800,177
2009	2,665,000	864,378	3,529,378
2010	3,035,000	749,782	3,784,782
2011	3,265,000	607,138	3,872,138
2012	3,410,000	427,562	3,837,562
2013	3,610,000	240,013	3,850,013
2014	1,000,000	55,000	1,055,000
Totals	$ 22,435,000	$ 4,922,503	$ 27,357,503

Sales and Use Tax			
Year	Principal	Interest	Total
2007	$ 710,000	$ 315,387	$ 1,025,387
2008	1,825,000	285,213	2,110,213
2009	2,220,000	207,650	2,427,650
2010	2,060,000	113,300	2,173,300
Totals	$ 6,815,000	$ 921,550	$ 7,736,550

Public Parking			
Year	Principal	Interest	Total
2007	$ 345,000	$ 179,242	$ 524,242
2008	360,000	161,648	521,648
2009	380,000	142,747	522,747
2010	400,000	122,608	522,608
2011	425,000	101,007	526,007
2012	445,000	78,058	523,058
2013	470,000	53,805	523,805
2014	495,000	27,720	522,720
Totals	$ 3,320,000	$ 866,835	$ 4,186,835

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Arbitrage provisions of the Internal Revenue Service require the City to rebate excess arbitrage earnings from bond proceeds to the federal government. Bond Counsel to the City is responsible for calculating arbitrage on a timely basis for each of the outstanding issues. As of December 31, 2006 the City had no arbitrage liability on outstanding bond issues.

Authorized Not Issued Sales Tax Revenue Bonds

The City is authorized to issue up to $70 million, plus the cost of issuance and debt service reserve funds, in additional second penny sales tax revenue bonds (Sales and Use Tax Fund) for the prepayment of the City's share of the Lewis and Clark Rural Water System project described in Note 5. The authorization was adopted on December 18, 2006, and became effective subsequent to year-end on January 11, 2007. It is anticipated that the bonds will be issued and closed prior to May 31, 2007.

Obligations Under Capital Lease

The City has acquired certain land, buildings, and equipment under lease purchase agreements. The leases are treated as capital leases and the present value of the minimum lease payments is included in governmental debt. The balance includes buildings with an original capitalized value of $1,424,763, all of which are included in the governmental activities.

Future minimum payments under capital leases consist of the following at December 31, 2006:

Capital Leases			
Governmental Activities			
Year	Principal	Interest	Total
2007	$ 115,014	$ 65,416	$ 180,430
2008	66,128	57,339	123,467
2009	71,966	51,501	123,467
2010	78,320	45,147	123,467
2011	85,234	38,233	123,467
2012 - 2014	403,567	66,835	470,402
Totals	$ 820,229	$ 324,471	$ 1,144,700

Notes Payable

The City has entered into several notes payable with the South Dakota Conservancy District, which have provided funds for construction and maintenance of the storm drainage, water, and water reclamation systems. These funds are drawn as construction progresses. Several notes have balances available that have not been drawn and are so noted on the individual debt table on page 57. A complete amortization schedule will be provided upon completion or partial completion of the draw term. Thus, future debt service cannot be accurately determined until all projects for each note are completed.

The Sales and Use Tax notes will be repaid with revenues from the Sales and Use Tax Fund. The outstanding balance of $33,242,657 has not entered repayment and therefore has no amortization schedule at December 31, 2006.

The Sales/Use Tax Fund has $3,256,692 available and undrawn notes payable from the South Dakota Conservancy District.

Notes to Financial Statements

The Storm Drainage notes will be repaid with revenues from the Storm Drainage Fund. The estimated debt service is as follows:

Storm Drainage			
Year	Principal	Interest	Total
2007	$ 88,299	$ 25,388	$ 113,687
2008	91,055	22,632	113,687
2009	93,899	19,788	113,687
2010	96,833	16,853	113,686
2011	99,863	13,824	113,687
2012	102,989	10,698	113,687
2013	106,216	7,471	113,687
2014	109,546	4,141	113,687
2015	51,029	1,601	52,630
2016	34,872	437	35,309
Totals	$ 874,601	$ 122,833	$ 997,434

The Storm Drainage Fund currently has no available and undrawn notes payable from the South Dakota Conservancy District.

The Water notes will be repaid with revenues from the Water Fund. The estimated debt service on these issues is as follows:

Water			
Year	Principal	Interest	Total
2007	$ 2,368,557	$ 576,447	$ 2,945,004
2008	2,474,942	494,814	2,969,756
2009	2,565,252	404,504	2,969,756
2010	2,455,918	310,724	2,766,642
2011	1,920,857	236,441	2,157,298
2012	1,983,764	173,535	2,157,299
2013	1,826,674	110,952	1,937,626
2014	1,336,840	58,375	1,395,215
2015	870,988	30,128	901,116
2016	661,325	8,284	669,609
Totals	$ 18,465,117	$ 2,404,204	$ 20,869,321

The Water Fund has $4,909,786 available and undrawn notes payable from the South Dakota Conservancy District.

The Water Reclamation notes will be repaid with revenues from the Water Reclamation Fund. The estimated debt service is as follows:

Water Reclamation			
Year	Principal	Interest	Total
2007	$ 1,633,842	$ 343,129	$ 1,976,971
2008	1,499,106	291,985	1,791,091
2009	1,404,574	240,628	1,645,202
2010	1,455,931	189,271	1,645,202
2011	1,509,259	135,943	1,645,202
2012	1,178,590	83,824	1,262,414
2013	793,277	54,882	848,159
2014	788,867	30,266	819,133
2015	386,605	12,674	399,279
2016	277,256	3,473	280,729
Totals	10,927,307	$ 1,386,075	$ 12,313,382
Issues With No Estimate Available	25,036,222		
Total	$ 35,963,529		

The Water Reclamation Fund has $15,892,300 available and undrawn notes payable from the South Dakota Conservancy District.

Component Unit

The Housing Commission notes will be repaid with revenues from property rentals. The estimated debt service on these issues is as follows:

Housing Commission			
Year	Principal	Interest	Total
2007	$ 28,493	$ 2,852	$ 31,345
2008	30,170	1,175	31,345
2009	9,194	24	9,218
2010	17,508	-	17,508
2011	40,234	-	40,234
2012-2016	201,172	-	201,172
2017-2021	201,172	-	201,172
2022-2026	147,526	-	147,526
Totals	$ 675,469	$ 4,051	$ 679,520

Accrued Compensated Absences

City employees are paid for accumulated vacation and sick leave upon retirement. Certain employees are also paid for a portion of excess sick leave on an annual basis. Accumulated vested compensated absences in governmental funds are recorded as a liability in the government-wide statements. Since this liability generally matures upon retirement, future maturities are not calculated.

Notes to Financial Statements

Legal Debt Limit

The City is subject to Article XIII, Section 4, of the South Dakota Constitution which limits the amount of bonded debt to a percent of the assessed valuation of the taxable property therein for the year preceding that in which said indebtedness is incurred. The categories are as follows:

1. Not to exceed 5 percent for the year preceding the year in which said indebtedness is incurred.

2. An additional indebtedness not to exceed 10 percent for the year preceding the year in which said indebtedness is incurred for the purpose of providing water and sewage, for irrigation, domestic uses, sewerage, and other purposes upon a majority vote in favor thereof of the electors.

3. An additional indebtedness not to exceed 8 percent for the year preceding the year in which said indebtedness is incurred for the purpose of constructing street railways, electric lights, or other electric plants upon a majority vote in favor thereof of the electors.

Accordingly, at December 31, 2006, the City has an available legal debt limit as follows:

2006 Assessed Actual Value Subject to Taxation: $ 8,178,948,410

Category	Legal Debt Limit Percent	Legal Debt Limit Amount	Net Bonded Debt Outstanding	Available Legal Debt Margin
General Purpose 1	5.0%	$ 408,947,421	$ 121,936,134	$ 287,011,287
Special Purpose 2	10.0%	817,894,841	-	817,894,841
Special Purpose 3	8.0%	654,315,873	-	654,315,873
		$ 1,881,158,134	$ 121,936,134	$ 1,759,222,000

I. Operating Leases

The City is a party to several operating leases for equipment, office space, and landfill site. The City has not entered into any operating leases with noncancelable terms as of December 31, 2006. The total rental expense for operating leases for the year ended December 31, 2006, was approximately $1,475,559.

Minimum future rentals do not include contingent rentals, which may be received during the lease period as stipulated in the various lease contracts.

Note 4—Joint Ventures/Related Organizations

The City of Sioux Falls is a party to four joint ventures as described below:

1. In 1980, the City of Sioux Falls and Minnehaha County under Articles of Agreement formed **Minnehaha Metro Area Communications** which is governed by a joint Council of the Mayor and one City Council member, two County Commissioners, and one other member appointed by the other four. Duties of Metro Communications include the responsibility of countywide public safety dispatch, maintenance of centralized dispatch records, and the maintenance and purchasing of related electronic communication equipment for public safety departments of City/County government. The Metro budget is developed by the Council and approved by both the City Council and County Commission in joint session. The County has expenditure control over the budget and financial arrangements of Metro and includes Metro in their financial statements. These activities are recorded within the general fund of the County and, accordingly, individual financial statements are not available. Complete financial statements for Minnehaha County can be obtained at their administrative offices located at 415 North Dakota Avenue in Sioux Falls, South Dakota. There is no debt specifically related to Metro.

The City and County have entered into a subsequent joint cooperative agreement as of January 1, 2007, which will change the composition and structure of Metro Communications. Beginning on January 1, 2007, Metro Communications will become an administrative agency with its own standing, separate and apart from the governmental organizations of either the City or the County.

The agency will be governed by a five member Council which will include two members of the Minnehaha County Board of Commissioners appointed by the Commission Chair, the Mayor of Sioux Falls, and two members of the Sioux Falls

Notes to Financial Statements

City Council appointed by the Mayor. The Agency will continue to provide the same service as previously enumerated.

2. The City of Sioux Falls and Minnehaha County jointly provide funding for the **Historical Museum Trust**. The Trust provides for operation of all City- and County-owned museums. Participation in the venture is funded equally. The City contribution to the venture for the year ended December 31, 2006, was $513,698 and is reflected as an expenditure in the General Fund. These activities are also recorded within the General Fund of the County and, accordingly, individual financial statements of the trust are not available. Complete financial statements for Minnehaha County can be obtained at their administrative offices located at 415 North Dakota Avenue in Sioux Falls, South Dakota. There is no debt specifically related to the trust. No future benefit or burden is anticipated other than the annual subsidy.

3. The City of Sioux Falls and Minnehaha County jointly provide funding for the **Siouxland Libraries**. The City received a subsidy of $700,848 from the County for operations during 2006. All activities of the library are recorded in the General Fund.

The City is responsible for all of the board appointments of the **Sioux Falls Regional Airport Authority**; however, it has legally been determined that the City has no further accountability for the Authority.

Note 5—Jointly Governed Organizations

The City, in conjunction with 15 other municipalities and five rural water systems within South Dakota, Iowa, and Minnesota that provide drinking water to consumers, is a member of the Lewis and Clark Rural Water System, Inc. (The "System"). The System will collect, treat, and distribute drinking water to the entities involved upon completion. The City thinks that the System is a critical supplemental water source for the City's continued growth. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation no member has a residual equity interest.

The City entered into an amended agreement with the System to increase the amount of drinking water from 10 million gallons per day to 28 million gallons per day to ensure that future supplemental water supply needs of the City can be met. In all, it is estimated that the City of Sioux Falls' share of the $513.3 million (October 2006 dollars) System project is currently $80.6 million ($28.2 million for 10 million gallons per day of base system capacity, $50.1 million for 17 million gallons in expanded system capacity, and $2.3 million for 1.007 million gallons per day of additional unallocated base system capacity), in October 2006 dollars. The City's investment to date of $9.7 million ($6.2 million in base costs and $3.5 million in expanded system costs) is recorded in the Water enterprise fund as an intangible asset. Of this total remaining commitment, the City will be making a series of prepayment installments equal to $64.281 million (see Note 6). Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated life-span upon the receipt of benefits from the System.

Note 6—Commitments and Contingencies

A. Commitments

At December 31, 2006, the City has commitments on construction projects totaling $46,426,425 as detailed in Note 3 (G).

The City has also entered into a commitment for base and expanded system costs for the Lewis and Clark Water System as discussed in Note 5. An outstanding commitment of $64.281 million, in 2006 dollars, for base and expanded system costs remains as of December 31, 2006. The actual commitment costs may be higher due to cost indexing, construction over-runs, and decreases in federal funding. Once complete, the City is committed to the purchase of 2,751,750 gallons of raw or treated water per day with stipulations. The amended and restated commitment agreement and raw water license agreement are available for further information regarding the City's outstanding commitment to the System.

The Lewis and Clark Rural Water System Board approved the first amendment to the amended and restated commitment agreement on February 22, 2007. This amendment provides for the prepayment of the City of Sioux Falls' allocated construction percentage which will stop construction inflation on the City's share of the $64.281 million estimated project costs. The prepayment is to be made in three annual installments beginning in 2007. In anticipation of this action, the City authorized the issuance of sales tax revenue bonds as discussed in Note 3(H) (authorized not issued sales tax revenue bonds) in an amount not to exceed $70 million plus the cost of issuance and debt service reserve funds.

The Electric Light Fund has a commitment to meet all of its power requirements by purchases from Heartland Consumers Power District until December 31, 2016 except for that part of its requirements that it is able to purchase from the Western Area Power Association.

The City has entered into a contract with the Department of the Army to construct a flood control structure to protect the City from future flooding of the Big Sioux River and Skunk Creek. The total project cost is estimated to be $45,600,000, of which the City is responsible for a minimum of 25 percent, but not to exceed 50 percent. Total costs as of December 31, 2006, are $22,732,633. The City's share is

Notes to Financial Statements

recorded in the Sioux Falls Flood Control Capital Projects Fund. The State of South Dakota has awarded a grant to the City for $2,900,000 to help fund this project. As of December 31, 2006, the City has received $1,270,759 from the State. Phase I of the project has been booked to capital assets. Phase II of the project remains in construction-in-progress.

The City has entered into fixed price refined fuel contract agreements with various entities. The agreements provide for a portion of the City's 2007 operating fuel needs with delivery to be accepted in March, April, and May of 2007 at various contract rates.

B. Contingent Liabilities

Litigation

The City is a defendant in various lawsuits. The City's legal counsel estimates that the potential claim against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City. No reserve has been recorded for any such liability arising out of the current pending litigation.

Solid Waste Landfill Closure and Post-closure Care Costs

The City owns and operates a landfill site located west of the city. State and federal laws will require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The City recognizes a portion of the closure and post-closure care costs in each operating period even though actual payments will not occur until the landfill is closed. The amount recognized each year is based on the landfill capacity used as of December 31. The change in the liability for the year ended December 31, 2006 is as follows:

CHANGE IN LIABILITY	Amount
Balance at January 1	$ 7,120,272
Costs incurred in 2006	(1,188,499)
Change in liability due to usage and revision of estimates	864,148
Balance at December 31	$ 6,795,921

As of December 31, 2006, the City estimates are as follows:

Site	Used to date	Recognized Liability	Remaining Liability	Remaining Life (Years)
Solid Waste #1	94.7%	$ 6,613,614	$ 372,979	2.7
Solid Waste #2	0.8%	18,347	2,112,627	35.0
Rubble/Asbestos	21.0%	163,960	615,072	31.0
Totals		$ 6,795,921	$ 3,100,678	

The remaining estimated liability for these costs will be recognized as the remaining capacity is used. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

By local ordinance as well as state and federal laws, the City is required to establish a fund to accumulate assets needed for the actual payment of closure and postclosure care costs. Currently, assets reported as restricted cash and cash equivalents on the combined balance sheet that total $5,204,251 are held for this purpose.

Note 7—Risk Management

The City's risk management activities are recorded in the City Health/Life Benefit, Workers' Compensation, Unemployment Compensation, and Insurance Liability Pool Funds. The purpose of these funds is to administer employee life, health, property and liability, worker's compensation, and unemployment insurance programs of the City on a cost-reimbursement basis. These funds account for the risk financing activities of the City but do not constitute a transfer of risk from the City.

Significant losses are covered by commercial insurance for all major programs except workers' compensation, for which the City retains the risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for this year or the prior two years.

The City has reported approximate aggregate liabilities in the Health/Life Benefit Fund as follows:

	2005	2006
Balance January 1	$ 1,100,000	$ 1,100,000
Claims incurred during the year	8,214,519	8,533,893
Payments on claims during the year	(8,214,519)	(8,533,893)
Balance December 31	$ 1,100,000	$ 1,100,000

The Workers' Compensation Fund has designated cash of $1,674,101 at December 31, 2006, which represents the present value of known claims against the fund.

The Housing Commission manages its risk by purchasing insurance from commercial insurance carriers for liability, workers' compensation, and employee health insurance. Paying into the unemployment compensation fund established by state law, and managed by the State of South Dakota, covers unemployment benefits.

Note 8—Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue/Economic Development Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are not general obligations, but are special, limited obligations, of the issuer, payable solely out of the revenues derived from the Agreement and pledged and assigned for their payment in accordance with the indenture. Neither the City, the State,

Notes to Financial Statements

nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2006, there were five series of Industrial Revenue/Economic Development Bonds outstanding, with an aggregate principal amount payable of $52,712,000.

Note 9—Prior Period Adjustments and Subsequent Events

Upon evaluation of accrued compensated absences on the governmental balance sheets as of December 31, 2005; the City has determined that the amount of current liability to be defeased with available resources should be restated and moved to long-term liabilities within the government-wide financial statements to be more reflective of current retirement patterns in accordance with Statement No. 16 of the Governmental Accounting Standards Board.

The City Council authorized the issuance of up to $35 million in additional second penny (.92) sales tax revenue bonds (Sales and Use Tax Fund) as anticipated within the 2007-2011 Capital Improvement Program adopted in 2006. This bond is being issued as a quality of life bond to fund three projects; the expansion and renovation of the downtown main library, the construction of a sports facility (softball complex) at Harmodon Park, and the construction of a new swimming pool at Nelson Park. The authorization was adopted on March 5, 2007, to become effective on March 29, 2007. It is anticipated that the bonds will be issued later in 2007.

Note 10—Defined Benefit Pension and Other Post-Employment Benefit Plans

A. Defined Benefit Pension Plans

Plan Description

The City of Sioux Falls administers two separate single-employer defined benefit pension plans established to provide retirement, disability, and survivor benefits for substantially all of its employees. The City Employee's Retirement System (CERS) and the City Firefighters' Pension Fund (CFPF) are considered to be part of the City of Sioux Falls' financial reporting entity and are included in the City's financial reports as Pension Trust funds; therefore, they do not issue stand-alone financial reports nor are they included in the report of another entity. Each plan's assets may be used only for the payment of benefits to the members of that plan or for payment of administrative expenses, in accordance with the terms of the plan as established or amended by City ordinance.

The CERS membership includes all uniformed and non-uniformed officers and employees who have certified civil service status and are not members or retirees of the CFPF, all officers and employees who are appointed by the Mayor and/or Council, and the Mayor. The CERS has two divisions, general and police. The police division covers all uniformed non-civilian police officers and the general division includes all members not included in the police division. The CFPF membership includes all non-civilian full-time officers and firefighters of the City.

CERS general member employees are vested upon five years of service. CERS police and CFPF member employees become vested upon 15 years of service. All members of the CERS and CFPF are eligible for an actuarially reduced benefit upon completion of 20 years of service.

Summary of Significant Accounting Policies

Basis of Accounting. The financial statements are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles applicable to governmental accounting for pension trust funds. Plan member contributions are recognized in the period in which the contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value to properly reflect the asset values of the fund at December 31, 2006. Fair values were determined based on closing market prices for those securities traded on national and international exchanges. Securities without an established market are reported at estimated fair value. As of December 31, 2006, and the year then ended, the funds held no securities issued by the City or related parties.

Funding Policy

CERS general division member employees contribute 3 percent of their gross earnings and police division member employees contribute 8 percent of their gross earnings. CFPF member employees contribute 8 percent of their gross earnings. The employee contribution rates are established by City ordinance. Employer contributions are established by actuarial valuations determined necessary to cover: 1) all administrative costs; 2) the actuarially determined cost of future benefits accruing to members during the year; and 3) an amount sufficient to amortize any unfunded liability of the system over a period of 17 years.

Annual Pension Cost

City contributions to the CERS plan for 2004, 2005, and 2006 were $4,270,076, $4,499,260 and $4,928,487 respectively, equal to the required contributions for each year. City contributions to the CFPF plan for 2004, 2005, and 2006 were $890,875, $1,053,254 and $1,683,121 respectively, which also equaled the required contributions for each year.

Notes to Financial Statements

Funding Status and Funding Progress

As of December 31, 2006, the funded status for the CERS and CFPF was 95.8% and 94.3% respectively. The CERS had actuarial accrued liabilities of $222.3 million with an actuarial value of assets of $213.0 million resulting in an unfunded actuarial accrued liability of $9.3 million. The CFPF had actuarial accrued liabilities of $87.2 million with an actuarial value of assets of $82.2 million resulting in an unfunded actuarial accrued liability of $5.0 million.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents a multi-year trend analysis of the funding progress for the CERS and CFPF pension plans.

Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the annual actuarial valuation using the following actuarial methods and assumptions:

City Employee's Retirement System and City Firefighters' Pension Fund	
Valuation Date	December 31, 2006
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining Amortization Period	17 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases (merit/longevity)	0.0% - 4.0%
Inflation Rate	4.5%
Cost-of-Living Adjustments	June CPI with 3% cap beginning 36 months after retirement

Membership of the plans consisted of the following at December 31, 2006, the date of the last actuarial valuation:

	City Employee's Retirement System	City Firefighters' Pension Fund
Retirees and beneficiaries receiving benefits	417	133
Vested former members not yet receiving benefits	48	5
Active plan members	878	178
Total	1,343	316

B. Post-Employment Health Care Benefits

Plan Description

In addition to providing the pension benefits described above, City ordinance provides for other post-employment health care benefits (OPEB) for eligible retired employees through participation in the City's single employer self-insured Health/Life Benefit Fund (Plan). The Plan, which includes both active and retired members, is an internal service fund of the City. The benefit, benefit levels, and employee contribution rates are governed by City ordinance.

The Plan provides health care benefits for eligible retired employees and beneficiaries up to the age of Medicare eligibility. The benefit levels are the same as those afforded to active employees and include both health and dental coverage. City employees are eligible for post-retirement health care benefits if they are entitled to a retirement allowance and have participated in the Plan at least five years immediately preceding separation from City employment. The cost of premiums is split equally between the retired employee and the City.

Membership of the plans consisted of the following at December 31, 2006, the date of the last actuarial valuation:

	City Employee's Retirement System	City Firefighters' Pension Fund
Retirees and beneficiaries receiving benefits	141	58
Retirees and beneficiaries not receiving benefits	276	75
Active plan members	878	178
Total	1,295	311

Summary of Significant Accounting Policies

The City follows the same accounting policies in accounting for post-employment retiree health care benefits as for the defined benefit pension plan described above.

Funding Policy

The City has historically pre-funded other post-retirement health care benefits on an actuarial basis not in compliance with Governmental Accounting Standards Board (GASB) Statement No. 45 on OPEB. This historical funding was based upon the use of a blended premium rate for calculating active employee and retiree premiums. The 2006 annual actuarial valuation for OPEB as reported in the required supplementary information to this report, as well as the City's contribution rate for future years, are based upon funding OPEB in compliance with GASB Statement No. 45.

Notes to Financial Statements

Annual OPEB Cost

City contributions to the CERS plan for 2004, 2005, and 2006 were $490,656, $595,278 and $673,763 respectively. City contributions to the CFPF plan for 2004, 2005, and 2006 were $205,117, $247,378 and $284,673 respectively.

Funding Status and Funding Progress

As of December 31, 2006, the funded status of OPEB within (CERS) and (CFPF) was 18.5% and 15.2% respectively. The CERS had actuarial accrued liabilities of $31.1 million with an actuarial value of assets of $5.7 million resulting in an unfunded actuarial accrued liability of $25.3 million. The CFPF had actuarial accrued liabilities of $11.2 million with an actuarial value of assets of $1.7 million resulting in an unfunded actuarial accrued liability of $9.5 million.

Actuarial Methods and Assumptions

The information as presented in the required supplementary schedules was determined as part of the annual actuarial valuations using the following actuarial methods and assumptions:

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining Amortization Period	29 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8%
Medical Inflation Rate	12.0% graded down to 4.5% in 2016
Paid Premium Rate Increase	2.0% graded down to 0.0% in 2018

Housing Commission Retirement Plan

All eligible employees of the Housing Commission participate in the Housing Renewal and Local Agency Retirement Plan, a cost sharing, multiple-employer public employee retirement system to provide retirement benefits for employees of local or regional housing authorities and commissions, urban renewal agencies, and other organizations that are eligible to participate in this plan subject to the approval of the agreement. Eligible employees are defined as staff scheduled to work 20 or more hours per week after attaining age 18 and completing one year of continuous and uninterrupted employment. The right to receive retirement benefits is 20 percent vested after one year credited service up to 100 percent vested after five years credited service. Authority for establishing, administering, and amending plan provisions is found in Internal Revenue Code Section 401(a). The Automated Data Processing (ADP) Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ADP Retirement Services, 462 South 4th Avenue, Suite 900, Louisville, KY 40202, or by calling (502) 561-4550. On June 24, 2002, the Housing Commission adopted Resolution No. 268-06-02 effective July 1, 2002, which implemented a mandatory after-tax employee contribution to the plan of 1 percent of basic compensation, and a corresponding employer contribution of 4 percent of basic compensation addition. The resolution permitted employees to voluntarily contribute additional after-tax amounts in excess of the 1 percent mandatory amount, which would be treated as voluntary contributions, and for which the employer would contribute additional corresponding amounts up to a maximum of 7 percent. The Housing Commission also changed the vesting provisions of the plan. Previously, the employer contributed 13 percent of basic compensation to the plan, such that 5.5 percent of those employer contributions were non-forfeitable, and the remaining 7.5 percent were subject to the plan's vesting schedule. Beginning July 1, 2002, the full amount of the employer's contributions will be subject to the plan's vesting schedule of 20 percent for each year of the employee's participation in the plan. During the years ended September 30, 2006, 2005, and 2004, the cost to the Commission was $38,698, $36,890, and $36,824, respectively.

Individual Pension Plan Financial Statements

Individual financial statements for the City's two defined benefit pension plans are presented on the following pages.

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Notes to Financial Statements - Fiduciary Funds Statement of Net Assets

	Employee's Retirement	Firefighters' Pension	Total Pension Trust Funds
Assets			
Cash and Cash Equivalents	$ 2,676,759	$ 975,038	$ 3,651,797
Receivables:			
Accounts	290,453	107,439	397,892
Interest	525,700	191,383	717,083
Total Receivables	816,153	298,822	1,114,975
Investments at Fair Value:			
US Government	33,927,247	13,097,396	47,024,643
Foreign Obligations	676,417	265,735	942,152
Domestic Stocks	46,452,485	18,183,106	64,635,591
Foreign Stocks	4,204,379	1,680,644	5,885,023
Index Funds:			
Equity	42,656,293	16,408,507	59,064,800
Government / Corporate Bonds	23,073,072	8,870,122	31,943,194
Mutual Funds:			
Foreign Equity	51,050,108	19,326,104	70,376,212
Domestic Equity	23,133,290	8,717,577	31,850,867
Real Estate	12,782,520	4,922,590	17,705,110
Total Investments	237,955,811	91,471,781	329,427,592
Total Assets	241,448,723	92,745,641	334,194,364
Liabilities			
Accounts Payable	13,045	5,494	18,539
Accrued Wages	4,072	2,149	6,221
Total Liabilities	17,117	7,643	24,760
Net Assets			
Held in Trust for Pension and Health Benefits	$ 241,431,606	$ 92,737,998	$ 334,169,604

Notes to Financial Statements - Fiduciary Funds Changes in Net Assets

	Employee's Retirment	Firefighters' Pension	Total Pension Trust Funds
Additions			
Contributions			
Employer	$ 5,975,325	$ 2,096,083	$ 8,071,408
Plan Members	1,907,951	804,140	2,712,091
Total Contributions	7,883,276	2,900,223	10,783,499
Investment Income (Loss)	33,030,851	12,813,932	45,844,783
Less Investment Expense	437,246	182,329	619,575
Net Investment Income (Loss)	32,593,605	12,631,603	45,225,208
Total Additions	40,476,881	15,531,826	56,008,707
Deductions			
Benefit Payments			
Pension	8,662,750	3,755,563	12,418,313
Health Premiums	673,764	284,672	958,436
Total Benefit Payments	9,336,514	4,040,235	13,376,749
Refunds	189,338	133,085	322,423
Administrative Expense	142,505	72,946	215,451
Total Deductions	9,668,357	4,246,266	13,914,623
Net Increase (Decrease)	30,808,524	11,285,560	42,094,084
Net Assets - Beginning	210,623,082	81,452,438	292,075,520
Net Assets - Ending	$ 241,431,606	$ 92,737,998	$ 334,169,604

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APPENDIX C –
FORM OF OPINION OF BOND COUNSEL

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LINDQUIST & VENNUM P.L.L.P.

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MINNEAPOLIS, MN 55402-2274
TELEPHONE: 612-371-3211
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IN DENVER:
600 17TH STREET, SUITE 1800 SOUTH
DENVER, CO 80202-5441
TELEPHONE: 303-573-5900
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ATTORNEYS AT LAW

www.lindquist.com

City of Sioux Falls
Sioux Falls, South Dakota

Re: $25,570,000 City of Sioux Falls, South Dakota Sales Tax Revenue Bonds, Series 2007B

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Sioux Falls, South Dakota (the "City") in connection with the authorization, sale and issuance by the City of the bonds described above, dated, as originally issued, December 12, 2007 in the aggregate principal amount of $25,570,000 (the "Series 2007B Bonds"). For the purpose of this opinion, we have examined certified copies of certain proceedings taken and certain certificates and affidavits furnished by the City in the authorization, sale and issuance of the Series 2007B Bonds, including (i) the form of the Series 2007B Bonds, (ii) an ordinance adopted by the City Council on March 5, 2007 and (iii) an Indenture of Trust, as so supplemented (the "Indenture"), dated as of August 15, 1988, as amended and supplemented including a Twelfth Supplemental Indenture, dated as of December 1, 2007. From our examination of such proceedings, certificates and affidavits, assuming the authenticity thereof, the genuineness of the signatures thereon and the accuracy of the facts stated therein, and on the basis of federal and South Dakota laws, regulations, rulings and decisions enacted, promulgated or rendered and in effect on the date hereof, in our opinion:

1. The Series 2007B Bonds are valid and binding special obligations of the City enforceable in accordance with their terms. The Series 2007B Bonds are not general obligations of the City and the general credit and taxing powers of the City are not pledged to the payment of the principal thereof or interest thereon.

2. The principal of and interest on the Series 2007B Bonds are payable from the collections of certain local sales taxes constituting the Pledged Sales Taxes, as defined in the Indenture, pledged to the payment thereof, and the Series 2007B Bonds, together with any other bonds issued heretofore and any other bonds issued hereafter on a parity therewith (collectively, the "Bonds"), constitute a lien on the Pledged Sales Taxes.

3. In and by the Indenture the City has validly made and entered into covenants and agreements with and for the benefit of the owners from time to time of all Bonds issued thereunder, including covenants that it will credit the Pledged Sales Tax as received to the appropriate funds; that additional bonds and refunding bonds may be issued and made payable from the Bond Fund on a parity with the Bonds upon certain conditions set forth in the Indenture,

but no obligation will be otherwise incurred and made payable from the Pledged Sales Tax, unless the lien thereof shall be expressly made subordinate to the lien of the Series 2007B Bonds on the Pledged Sales Tax; and that all provisions for the security of the owners of the Series 2007B Bonds as set forth in the Indenture will be punctually and faithfully performed as therein stipulated.

4. All conditions precedent to the issuance of the Series 2007B Bonds as Additional Bonds under the Indenture have been fulfilled. The exemption from federal income tax of the interest on the Series 1996A Bonds, the Series 1996B Bonds, the Series 1999 Bonds, the Series 2001B Bonds, the Series 2004 Bonds, the Series 2006A Bonds, the Series 2006B Bonds and the Series 2007A Bonds (as defined in the Indenture) will not be affected by the issuance of the Series 2007B Bonds.

5. Interest to be paid on the Series 2007B Bonds is not includable in gross income for federal income tax purposes, but the interest is includable in gross income for South Dakota tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. Interest to be paid on the Series 2007B Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations.

The opinions expressed in paragraphs 1 through 3 above, are subject to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the exercise of judicial discretion.

The opinions expressed in paragraph 5 above are subject to the condition of the City's compliance with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2007B Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes, and the Series 2007B Bonds be and continue to be qualified tax-exempt obligations. The City has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Series 2007B Bonds in federal gross income retroactive to the date of issuance of the Series 2007B Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to holders of the Series 2007B Bonds.

Dated: December 12, 2007.

Very truly yours,

APPENDIX D –
BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007B Bonds. The Series 2007B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2007B Bond certificate will be issued for each Stated Maturity of each series of the Series 2007B Bonds, each in the aggregate original principal amount of such Stated Maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. "Direct Participants" include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporations ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2007B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners are, however, expected to receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007B Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial

Owners will not receive certificates representing their ownership interests in Series 2007B Bonds, except in the event that use of the book-entry system for the Series 2007B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007B Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007B Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2007B Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2007B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2007B Bond documents. For example, Beneficial Owners of the Series 2007B Bonds may wish to ascertain that the nominee holding the Series 2007B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices, if any, shall be sent to DTC. If less than all of the Series 2007B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee), will consent or vote with respect to Series 2007B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2007B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest on or the redemption price of the Series 2007B Bonds will be made to Cede & Co., or such other nominee as may be requested, by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on or the redemption price of the Series 2007B Bonds to Cede & Co. (or

such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007B Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007B Bond certificates are required to be prepared and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) for the Series 2007B Bonds. In that event, Series 2007B Bond certificates will be prepared and delivered.

The foregoing description concerning DTC and DTC's book-entry system is based solely on information provided by DTC, and the City does not take responsibility for the accuracy thereof and no representation is made herein as to the accuracy or completeness of such information.

The City cannot and do not give any assurances that DTC, DTC Participants, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (i) payments of principal and interest with respect to the Series 2007B Bonds, (ii) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2007B Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2007B Bonds, or that they will do so on a timely basis or that DTC, DTC Participants, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2007B BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

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APPENDIX E –
SUMMARY OF CONTINUING DISCLOSURE

The following is a brief summary of certain provisions of the Continuing Disclosure Agreement relating to the Series 2007B Bonds and does not purport to be complete or definitive and investors should refer to the Continuing Disclosure Agreement for a complete recital of its terms. A copy of the Continuing Disclosure Agreement is available upon request from the Trustee.

In order to permit the Underwriter and other participating underwriters of the Series 2007B Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (as in effect and interpreted from time to time, the "Rule"), the City will covenant and agree, for the benefit of the Owners (as hereinafter defined) from time to time of the Outstanding Series 2007B Bonds, in a Continuing Disclosure Agreement, dated as of December 1, 2007, between the City and the Trustee, as agent (the "Continuing Disclosure Agreement"), to provide annual reports of specified information and notice of the occurrence of certain material events as hereinafter described. The City is the only "obligated person" in respect of the Series 2007B Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. The City has not defaulted under a continuing disclosure undertaking it has entered into under the Rule.

As used herein, "Owner" or "Series 2007B Bondowner" means, in respect of a Series 2007B Bond, the registered owner or owners thereof appearing in the bond register maintained by the Trustee or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee. As used herein, "Beneficial Owner" means, in respect of a Series 2007B Bond, any person or entity which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series 2007B Bond (including persons or entities holding Series 2007B Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series 2007B Bond for federal income tax purposes.

As used herein, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Series 2007B Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed under the Continuing Disclosure Agreement or information generally available to the public. Notwithstanding the foregoing, a "Material Fact" is also an event that would be deemed "material" for purposes of the purchase, holding or sale of a Series 2007B Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

Information To Be Provided

Annual Information

The City will agree that on or before 180 days after the end of each fiscal year commencing with the fiscal year ending December 31, 2006, it will deliver to the Trustee certain financial information and operating data relating to the City for the preceding fiscal year of the City as hereinafter specified (the "Disclosure Information"), accompanied by a City certificate stating in effect that such information is the City Disclosure Information required to be submitted under the Continuing Disclosure Agreement.

The Disclosure Information comprises the following (subject to modification as described below):

(1) A complete audit report and opinion of an Accountant and the statements of financial position of the City for such fiscal year, containing a balance sheet as of the end of such fiscal year and a statement of changes in net assets and statement of cash flows for the fiscal year then ended, and showing in comparative form such figures for the preceding fiscal year of the City, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board applicable to entities such as the City as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the City noting the discrepancies therefrom and the effect thereof.

(2) To the extent not included in the financial statements referred to in paragraph (1) hereof, the information of the type identified below, which information may be unaudited, but shall be certified as to accuracy and completeness in all material respects by the chief financial officer of the City to the best of his or her knowledge, which certification may be based on the reliability of information obtained from governmental or other third party sources:

The following financial information and operating data as of the beginning or end of the most recent complete academic or fiscal year, as appropriate:

a. The matters covered by the Sections of Appendix A to this Official Statement entitled:

Demographics
City Services
Construction
Major Employers
Financial Information
Future Financing
City Obligations

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the City will agree to provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the City is to provide the audited financial statements.

Any or all of the Disclosure Information may be incorporated by reference, if updated as required by the Continuing Disclosure Agreement, from other documents, including official statements, which have been submitted to each then nationally recognized municipal securities information repository under the Rule (collectively, the "National Repositories") and to any state information depository then designated or operated by the State of Minnesota as contemplated by the Rule (the "State Depository") or to the SEC. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board (the "MSRB"). The City will agree to clearly identify in the Disclosure Information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the City have materially changed or been discontinued, such Disclosure Information need no longer be provided if the City includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other City operations in respect of which data is not included in the Disclosure Information and the School determines that certain specified data regarding such replacement operations would be a Material Fact, then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or the Continuing Disclosure Agreement is amended in accordance with its terms, then the City is to include in the next Disclosure Information to be delivered, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

Certain Events

The City is also to provide to the Trustee timely notice of any of the following events or conditions which is a Material Fact (as used herein, the "Material Events"):

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions or events affecting the tax-exempt status of the security;

(7) Modifications to rights of security holders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities; and

(11) Rating changes.

The City notes that, since on the date of issue there is no credit enhancement securing the Series 2007B Bonds, the events listed in clauses (4) and (5) may not be applicable.

The City also agrees to notify the Trustee promptly of any change in the fiscal year and of any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared (the "Other Events").

Disclosure of Information

The Trustee is authorized and directed to make available to the entities identified below the following information in a timely manner by telecopy, overnight delivery, mail or other means, as appropriate:

(a) the Disclosure Information to each of the National Repositories and to the State Depository, if any (collectively the "Repositories"); provided, however, that any filing with a Repository under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council ("MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretative advice in its letter to MAC dated September 7, 2004;

(b) any Material Event reported to the Trustee by the City in the form provided by the City, to the MSRB and to the State Depository, if any;

(c) the failure of the City to provide the Disclosure Information required to be provided to the Trustee under the Continuing Disclosure Agreement, within 180 days after the fiscal year, to the MSRB and to the State Depository, if any;

(d) any amendment of or supplement to the Continuing Disclosure Agreement entered into in accordance with the provisions thereof, together with a copy of such amendment or supplement and any explanation thereof provided by the City pursuant to the Continuing Disclosure Agreement, to the MSRB and to the State Depository, if any;

(e) the termination of the obligations of the City under the Continuing Disclosure Agreement in respect of the Series 2007B Bonds, to the MSRB and to the State Depository, if any; and

(f) any Other Event reported by the City to the Trustee, to the MSRB and the State Depository, if any.

At the written request of the City, the Trustee is also to furnish promptly to the Repositories a copy of any other information provided by the City for such dissemination.

Disclosure to Bondowners

Nothing in the Continuing Disclosure Agreement is intended to limit the ability of the Trustee to communicate with the Bondowners in such manner and at such times as it shall deem appropriate in executing the trusts under the Indenture. The Trustee is not required to forward any such communication to the Repositories, unless and only to the extent it is specifically described under "Disclosure of Information" above.

Term

The Continuing Disclosure Agreement is to remain in effect so long as any Series 2007B Bonds are Outstanding. The Continuing Disclosure Agreement is to terminate, however, as of any date on which the City delivers to the Trustee an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the City to comply with this Agreement will not cause Participating Underwriters to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

Costs, Expenses and Indemnification of Trustee

The City will agree to pay reasonable compensation of the Trustee for, and all costs and expenses of the Trustee incurred in, performing the services required of it under the Continuing Disclosure Agreement, whether as agent for the City or otherwise. The Trustee shall have the right to use and apply Trust Money, to the extent provided in the Indenture, for such compensation.

The City will further agree to indemnify and hold harmless the Trustee and its officers, directors and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including reasonable attorneys' fees and expenses) which such indemnified party may incur by reason of or in connection with the Trustee's disclosure of information pursuant to the Continuing Disclosure Agreement unless caused by the willful misconduct or negligence of the Trustee in such disclosure of information.

Defaults, Remedies

Failure of the City or the Trustee to comply with any provisions of the Continuing Disclosure Agreement on its part to be observed constitutes a default thereunder and any party thereto aggrieved thereby, including the Owners of any Outstanding Series 2007B Bonds as third-party beneficiaries thereof, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained herein. Direct, indirect, consequential and punitive damages, however, shall not be recoverable by any Person for any default thereunder and are waived to the extent permitted by law. In no event shall a default under the Continuing Disclosure Agreement constitute a default or an Event of Default under the Series 2007B Bonds or the Indenture.

In addition to the foregoing remedies, in the event the City breaches its covenant to provide the City Disclosure Information to the Trustee by the dates prescribed therefor, and such breach continues until the date 270 days after the end of the fiscal year as to which such disclosure is to be made, then the Trustee is to make available promptly to the Repositories notice of such failure.

Binding Effect

The Continuing Disclosure Agreement is to inure to the benefit of and be binding upon the City and the Trustee and their respective successors and permitted assigns (including any permitted successor to the City under the Indenture); provided, however, that in the event another Person succeeds to the obligations and agreements of the City under the Continuing Disclosure Agreement, the City Disclosure Information may be modified to the extent permitted as described under "Amendments; Interpretation."

Amendments; Interpretation

The Continuing Disclosure Agreement (and the form and requirements of the Disclosure Information) may be amended or supplemented from time to time, without notice to or the consent of the Owners of any Series 2007B Bonds in a writing executed by the City and the Trustee (and the consent of the Trustee to such an amendment is not to be unreasonably withheld or delayed) accompanied by an opinion of Bond Counsel, who may rely on certificates of the City and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the City or the type of business conducted by the City, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) the Continuing Disclosure Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Series 2007B Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule. The Continuing Disclosure Agreement is to be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX F –
SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

SPECIMEN

Resident Licensed Agent

City, State

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-RCS-7
01/05